

COUNTY OF SUTTER

April 4, 2008

The Honorable Christopher R. Chandler
Presiding Judge, Sutter County Superior Court
446 Second Street
Yuba City, CA 95991

ENDORSED FILED

SEP 29 2008

SUPERIOR COURT OF CALIFORNIA
COUNTY OF SUTTER
CLERK OF THE COURT
BY LAURA SANTANA Deputy



ROBERT E. STARK, CPA

AUDITOR-CONTROLLER

Dear Judge Chandler:

The first of the 2007-2008 Grand Jury reports—*Board of Supervisor's Mileage Reimbursement*—“recommends that the Auditor-Controller’s office provide all of the Supervisors with an expense reimbursement form before their next reimbursement that includes spaces for start and destination points to accurately record mileage and more space to detail other expenses”.

Pursuant to the requirements of Penal Code Section 933.05(a) (1) this response is submitted reflecting the Auditor-Controller’s agreement with the recommendation.

To document compliance with the requirements of Penal Code Section 933.05(b) (1) the recommendation has been implemented as explained below and by providing copies of this response to the individual Supervisors as notification of the availability of the mileage log form.

In consideration of the above we have located a mileage log form (see attachment) which can be downloaded at <http://office.microsoft.com/en-us/templates/TC060884581033.aspx>. This form or a comparable substitute is to be used for the purpose of claiming actual mileage pursuant to Sutter County Ordinance 52-599 /04/07 (b). This is an Excel form which can be filled out and printed for attachment to the County of Sutter Travel and Business Expense Accounting form, or it can be printed and filled out manually, to document mileage from an odometer reading. Alternative acceptable documentation is a printout of a standard internet map direction printout which shows driving directions and calculated mileage. The total miles can then be entered by the claimant on the Travel and Business Expense Accounting form. Documentation should conform to the standards explained in IRS Publication 463 Travel, Entertainment, Gift and Car Expenses. Publication 463 also has examples of mileage logs. Additional sheets can be added to attach receipts or additional written explanations when necessary to detail other expenses.

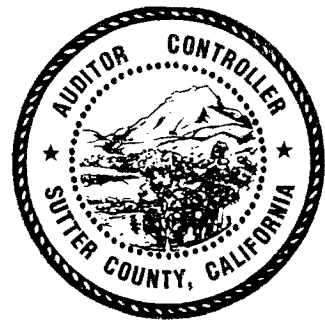
The Auditor-Controller’s office routinely provides direction to other county employees on how to comply with County policies and procedures but we rarely have any contact with most Supervisors. We encourage the Supervisors to contact the Auditor-Controller’s office so we can show them techniques for submitting all of their claims properly with minimal effort. We know the requirements. This is very much a part of the Auditor-Controller’s mission as stated on the County’s internet site (but not intranet) to provide management information, which leads to increased awareness of and improvements in economy, efficiency, and effectiveness of operations.

Sincerely,

Robert E. Stark, CPA
Auditor-Controller

COUNTY OF SUTTER

August 25, 2008



ROBERT E. STARK, CPA

ENDORSED FILED AUDITOR-CONTROLLER

The Honorable Christopher R. Chandler
Presiding Judge of the Superior Court of California
County of Sutter
446 Second Street
Yuba City, California 95993

AUG 25 2008

SUPERIOR COURT OF CALIFORNIA
COUNTY OF SUTTER
CLERK OF THE COURT

Dear Judge Chandler:

By _____ Deputy
Melinda Kouanda

Submitted herewith is the Auditor-Controller's Office response to the 2007-2008 Grand Jury Final Report. Penal Code § 933(c) and § 933.05 require my office to respond to the findings and recommendations of the Grand Jury. This response is submitted directly to you pursuant to Penal Code § 933.05(f). Please note that I previously responded separately to the section *Board of Supervisors Mileage Reimbursement* in my letter of April 4, 2008.

I commend the individual members of the Grand Jury for their public service.

I share the Grand Jury's concerns in making Sutter County government work better. I am looking forward to working constructively and positively with the Board of Supervisors and the County Administrator's Office to implement improvements with the objective of increasing the County's efficiency and effectiveness.

By law I am also required to send a copy of this report to the Sutter County Board of Supervisors, after which they will have another 30 days to write their response. I am complying with that requirement. I trust that my response will likewise be distributed to all recipients of the Grand Jury's report and all recipients of the Board of Supervisor's response.

Sincerely,

Robert E. Stark

Robert E. Stark, CPA
Auditor-Controller

Cc: Sutter County Board of Supervisors

Sutter County Auditor-Controller's Response to 2007-2008 Grand Jury Report
AUDIT & FINANCE COMMITTEE SECTION—Annual Financial Report and Audit
Fiscal Year 2006-2007

Auditor-Controller's response to Findings in 2007-2008 Sutter County Grand Jury Report,
pages 18-19

Finding One (in order presented)

"The Grand Jury finds the audited financial statements reflect accurately the financial position of Sutter County."

The Auditor-Controller responds— We agree. The financial statements reflect accurately the financial position of Sutter County within the limitations of the materiality level accepted by the auditor for the limited purpose of attesting to the accuracy of the financial statements. This is characteristic of all financial statements.

Finding Two

"The Grand Jury finds that twelve financial accounting deficiencies were identified by the Independent Auditor. Of these, one has been corrected and two others will be eliminated by actions already taken by the Board of Supervisors. Of the remaining conditions, most are "easy to correct" and those corrections must be initiated by the Auditor-Controller. '

The Auditor-Controller responds— We partially agree as discussed below. We disagree with characterizing the "Independent Auditor's" (Smith & Newell CPA's) recommendation using the terminology "financial accounting deficiencies" because those terms have the implication that something is wrong with the accounting when, in fact, the recommendations cover a spectrum of issues involving management, budget, accounting and policy in one or many departments.

07-01 "We recommend that the County initiate a serious effort to develop and implement comprehensive policies and procedures for all current financial processes. This is a repeat of a prior year recommendation."

The Auditor-Controller responds— We agree and have undertaken a serious effort, compiling a draft guide with the help of management consult Harvey M. Rose & Associates, LLC. Unfortunately, much of the work will have to be redone now since we have just learned that the County Administrator is recommending that the County adopt an administrative guide which uses a special format that is not compatible with the work which has already been done. We will continue to work on this as time allows. We anticipate having this done by the end of 2008-2009.

07-02 "We recommend that the General Reserve be restored back to its original balance of \$1,080,000. This is a repeat of a prior year recommendation."

The Auditor-Controller responds— We agree. Having now received clear authorization from the Board of Supervisors the General Reserve was restored in 2007-2008.

07-03 “We recommend that the County require that the AAP-4s be signed by the “Authorized Official of County Welfare Department” (County eligibility staff) and that this person check the appropriate box showing determination of FFP eligibility on the bottom of this form. We also recommend that the County incorporate into their review process procedures to ensure that the AAP-4s are properly completed and executed.”

The Auditor-Controller responds— We agree. We were informed this was implemented by the Welfare Department.

07-04 “We recommend that the County adopt a comprehensive updated capitalization policy which includes all required capital asset accounting elements including infrastructure and estimated useful asset life. This is a repeat of a prior year recommendation.”

The Auditor-Controller responds— We agree. To accomplish this we have been working on a capitalization policy for adoption by the Board of Supervisors but with the anticipated adoption of the new format for the administrative guide mentioned above this will require significantly more time to complete in the prescribed format. We anticipate having this done by the end of 2008-2009.

07-05 “We recommend that the unresolved differences be resolved and any inactive accounts be closed. This is a repeat of a prior year recommendation.”

The Auditor-Controller responds— We agree. However, it should be noted that Smith & Newell’s report incorrectly uses the sub-heading “payroll trusts”. The text is correct describing this as “Personnel Benefits Revolving Trust fund (5226). Accordingly, the Personnel department is the managing department for this fund and the County this year has hired a consulting accountant to assist them with the reconciliation.

07-06 “We recommend that [t]he County only record provisions for reserves/designations in County Budget Form Schedule 1A. This is a prior year recommendation.”

The Auditor-Controller responds— We agree. This involves coordinating the County’s standalone budget system with the general ledger. This is not under the control of the Auditor-Controller’s Office. We understand that Stephanie Larsen in the County Administrator’s Office and Information Technology department are working on this project.

07-07 “We recommend that the County analyze this fund [Fleet Management 4580] and determine whether there are unrecorded reserves/designations for fleet replacement that should be recorded. If there are reserves/designations to be recorded, the entry would be to credit the reserve account within the Fleet Management fund and debit the undesignated retained earnings. If a policy change is to be implemented, it should be

agreed upon between the interested parties and clearly described in a written policy statement. If the new Vehicle Replacement fund 4585 was intended to function as a reserve, fund procedures need to be developed to accomplish that purpose. This is a repeat of a prior year recommendation.”

The Auditor-Controller responds— We partially agree. We have analyzed the Fleet Management Fund 4580 and determined that not only are there no unrecorded reserves/designations but that it would be inappropriate to set them up since the fund is a proprietary fund. According to *Government Accounting Auditing and Financial Reporting (GAAFR)* (Stephen J. Gauthier, Government Finance Officers Association, 2005) the terms “designated” and “reserved” are only defined for use in governmental funds as modifiers of the term “fund balance” (Glossary, pages 685 and 709). More precisely:

Designations are used to reflect a government’s *intended* use of current available financial resources. The focus on current financial resources is unique to governmental funds. Accordingly, designations should be reported only on the governmental fund balance sheet. There is no equivalent equity designation that may be used for government-wide financial reporting or for proprietary fund and fiduciary fund financial reporting to reflect the intended use of resources.

Smith & Newell’s recommendation in the management report may be based on the State Controller’s *Handbook of Cost Plan Procedures for California Counties* section 2245: “Portions of unrestricted net assets may be ‘designated’ to indicate that the management of the ISF does not consider these assets to be available for general operations”. Section 2245 is clearly in conflict with *GAAFR* which is authoritative with regard to defining generally accepted accounting principles. Nevertheless, within unrestricted net assets Fleet Management 4580 already has the Contribution from County account distinct from Net Assets, with a balance of approximately \$1.49 million. A portion of Vehicle Replacement funds (VRP) amounting to approximately \$583,000 is commingled in this contribution account. Per Board order March 12, 2008, VRP (fund 4585) will be closed, approximately \$170,000 transferred to Fleet Management and then to the General Fund as of June 30, 2008. At this time the \$583,000 commingled VRP should also be transferred from Fleet Management to the General Fund. The “Designation for Future Vehicle Purchases” in the approximate amount of \$753,000 (\$170,000 + \$583,000) will be then be established within the General Fund, which is appropriate.

07-08 “We recommend that the County reconcile and record the activity in the flexible spending account. This is a repeat of a prior year recommendation.”

The Auditor-Controller responds— We agree. This is not under the control of the Auditor-Controller’s Office. Flexible spending is managed by the Personnel Department. We have assisted Personnel with this and the reconciliation should be done as of June 30, 2008 by the time the books are closed in September.

07-09 “We recommend that the County operating funds be numbered in a sequence that is separate from the trust and agency funds and that any funds inappropriately numbered be re-numbered. This is a repeat of a prior year recommendation.”

The Auditor-Controller responds— We agree and this has been done.

07-10 “We recommend that this account [Fleet Management fund 4580] be analyzed and that the County review their accounting policies and procedures to ensure that all items of revenue are accounted for properly. This is a repeat of a prior year recommendation.”

The Auditor-Controller responds— We agree and this has been done.

07-11 “We recommend that the County review fund 4585 to ensure that this fund is being used for the purpose for which it was established. In addition, we recommend that the capital assets and accumulated depreciation be transferred to Fleet Management fund 4589. This is a repeat of a prior year recommendation.”

The Auditor-Controller responds— We agree. This fund is closed as of June 30, 2008 and we will be available to the Public Works Department to advise them on the final closing procedures.

07-12 “We recommend that the County take all necessary steps to ensure that staff is in compliance with Statement on Auditing Standards No. 112 requirements.”

The Auditor-Controller responds— We agree. This will be implemented for preparation of the 2007-2008 financial statements.

Finding Three

“The Grand Jury finds that the Auditor-Controller does not have a complete written procedures manual. This condition was first identified in the 2002-2003 fiscal year. The 2006-2007 Grand Jury stated the following, *“The Grand Jury recommends the Auditor/Controller focus on completing updated and accurate policies and written accounting procedures for the use of all departments within the county, as recommended by the Harvey M. Rose report, and that the Auditor/Controller’s office provides periodic updates to the Board of Supervisors as to the status of completion of these recommendations.”*”

The Auditor-Controller responds—We agree.

Finding Four

The Grand Jury finds, and commends, an increased level of cooperation between the Auditor-Controller’s office and County Administration.

The Auditor-Controller responds—We agree. The Auditor-Controller’s Office works cooperatively with the County administrative officer to provide timely and relevant management information and financial information in accordance with generally accepted accounting principles.

Finding Five

“As of the writing of this report, Sutter County does not have any prospects to contract an Independent Auditor. If the county cannot hire its own, an agreement must be entered into with the California State Controller’s Office.”

The Auditor-Controller responds—We have no basis to agree or disagree with this finding. The Auditor-Controller’s Office has not been involved in the process to contract with an “Independent Auditor”.

Auditor-Controller’s response to Recommendations in Grand Jury Report, page 19

Recommendation One

“The Grand Jury recommends that the Auditor-Controller implement the recommendations suggested by Smith & Newell in their Management Report. It should be the goal, which in the view of the Grand Jury can be easily achieved, to correct all identified conditions by the end of the next fiscal year.”

The Auditor-Controller responds—We partially agree as noted above in the Findings. Implementation plans are explained above as appropriate.

Recommendation Two

“The Grand Jury recommends that the Auditor-Controller complete the written procedures manual post haste.”

The Auditor-Controller responds—We partially agree. This project will be done within the constraints of staffing relative to ongoing workload. While we did have the assistance of consultant Harvey M. Rose & Associates, LLC and prepared a draft manual, much of that work will have to redone since the Board of Supervisors’ adoption of a new standard format for preparing administrative policies. Depending on the involvement required of our office in the implementation of the new payroll system we are making every effort to complete the procedure manual by the end of this fiscal year, 2008-2009.

(end of section)

AUDIT & FINANCE COMMITTEE SECTION—Travel & Business Expense Policy

Auditor-Controller's response to Findings in 2007-2008 Sutter County Grand Jury Report, pages 40-41

Finding One

The Grand Jury finds that the practice of Sutter County Administrative Officer, Larry Combs to submit his expense reimbursements annually exceeds standard business practices and the recommendations of the IRS.

The Auditor-Controller responds—We agree.

Finding Two

Auditor-Controller Mr. Stark's interpretation of the IRS rule does not fall within standard accounting practices. The "Safe Harbor Rule" is not a steadfast timeframe for reimbursement. Since the county policy did not contain a timeframe for expense reimbursements, the "Facts and Circumstances" of which the reimbursement would depend enabled the county to reimburse Mr. Combs.

The Auditor-Controller responds—We disagree. Following the Safe Harbor rule is a conservative position for the Auditor-Controller to take which is a prudent management policy that minimizes the likelihood of tax compliance issues arising which could result in sanctions against the County. Deviating from this without express direction from the Board of Supervisors is not good public policy. Nevertheless, Mr. Combs was subsequently paid as directed by the Board of Supervisors.

Finding Three

The Grand Jury disagrees with County Counsel Ronald Erickson's opinion that a four-year period for reimbursement of the CAO's claim was "within a reasonable timeframe." There is a disagreement, even within the CAO's office, as to whether the IRS code Section referenced by the County Counsel even applies in this case. Common sense dictates to the Grand Jury, and should have to County Counsel and the Board of Supervisors as well, that a four-year delay in submitting a claim for reimbursement cannot be deemed reasonable, absent any extraordinary circumstances.

The Auditor-Controller responds—We agree.

Finding Four

Mr. Combs' inattention to his financial record keeping resulted in an inefficient use of county resources. The Auditor-Controller, County Counsel and the Board of Supervisors were all

required to spend time on this issue which would have been unnecessary had Mr. Combs submitted his claims in a timely manner.

The Auditor-Controller responds—We agree.

Finding Five

The Grand Jury finds that the current Travel & Business Expense policy is insufficient to address these issues and it is necessary to implement the new, consistent, non-arbitrary policy. The lack of a comprehensive policy, which was exacerbated by the delay in coming to agreement upon a new policy, has caused chaos between departments.

Unclear direction from Deputy CAO Barbara Kinnison and steadfast refusal to accept a denial of claim from County Counsel Ronald Erickson has caused delay in payments and required that the Board of Supervisors become involved in small dollar amount reimbursement claims. In both cases, these claims may have been resolved by referring to a comprehensive travel policy.

The Auditor-Controller responds—We disagree. The current Travel & Business Expense policy was adopted by the Board of Supervisors to curb known abuses at that time and to allow for efficient administration of the reimbursement process while providing adequate internal controls to detect and correct flagrant abuses. We have had very few problems with the policy until recently when claims have been submitted which do not meet even minimal standards for compliance. The Board's recent approvals of four-year-old claims for the CAO and the County Counsel claim appear to be the result of the liberalization of the majority of the Board's opinions regarding the propriety of certain kinds of expense reimbursements. It is within the Board's discretion to make these policy changes from time to time even though, in the opinion of the Auditor-Controller, they are not good public policy because of the poor example set for rank and file employees and the budgetary issue. In order to address this more liberal interpretation, however, we are working with the CAO to change the current policy.

Finding Six

The Grand Jury finds that there is an inconsistency in county policy and that at least one department, the Division of Mental Health, Department of Health and Human Services, has arbitrarily created its own policy.

The Auditor-Controller responds—We partially agree. The policy set by the Board of Supervisors should be consistently followed by all County departments. In some instances, though, departments have special requirements and when it is not in conflict with Board of Supervisor's policy County managers have discretion to set departmental policies. No special requirements triggering a deviation from Board policy are apparent from reading the Grand Jury report but it should also be noted Mental Health is a bi-county agency which may have some bearing on this.

Finding Seven

The Grand Jury finds that the Board of Supervisors failed to act on their ability to set policy by precedent in the case of the least cost method of travel in Richard Stout's claim.

The Auditor-Controller responds—We agree.

Auditor-Controller's response to Recommendations in Grand Jury Report, page 41

Recommendation One

The Grand Jury is aware that a revised Travel & Business Expense Policy has been submitted for the Auditor-Controller to evaluate. It is the recommendation of the Grand Jury that the drafted and revised policy be adopted immediately to prevent any further ambiguity.

The Auditor-Controller responds—We partially agree. However, the April 2008 revised policy is still in the process of review by the CAO and Auditor-Controller's office so there is still work to be done before a final draft is agreed upon. We expect this recommendation to be implemented this fiscal year upon adoption of the new Travel & Business Expense Policy.

Recommendation Two

It is the Grand Jury's further recommendation that the Auditor-Controller take his direction first from a clear and comprehensive policy, as it pertains to all manner of expense reimbursements. When there is an unclear point in the policy regarding a reimbursement, the Grand Jury recommends that the Auditor-Controller attempt to obtain clarification from the Department head and/or the CAO's office.

In the current, highly charged, climate between the CAO's office and the Auditor-Controller, there is no room for unclear communication. The Board of Supervisors, Department heads and members of the CAO's office must be clear in their direction ensuring that their communications are precise and well documented. Reasonable, professional employees and elected officials should be able to come to an understanding or resolve a misunderstanding without involving all of the other county resources. The Board of Supervisors should only be involved with these matters when all reasonable methods have been exhausted.

The Auditor-Controller responds—We partially agree. This has been the Auditor-Controller's office policy. When clarification is needed we consult as necessary all authoritative sources. Ultimately, the Board of Supervisor is the final arbitrator, which is appropriate. We expect this recommendation to be implemented this fiscal year upon adoption of the new Travel & Business Expense Policy.

Recommendation Three

Further, the Grand Jury recommends that department heads use this new Travel & Business Expense Policy as a minimum internal control standard, accentuating it, if necessary, to meet the needs of their individual departments.

The Auditor-Controller responds— We agree. See discussion above on Finding Six which is similar. We expect the new policy to be adopted by the Board of Supervisors and implemented this fiscal year.

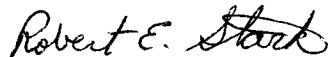
Recommendation Four

To adhere with the spirit of the IRS laws, and sound financial practices, it is the Grand Jury's recommendation that CAO Larry Combs or any other county employee responsibly submit expense reports for expenses incurred within the time frame set out in the policy. If an exception must be made, it should only be made in the fiscal year in which it was incurred. Any additional requests for expense reimbursements should be considered forfeited.

The Auditor-Controller responds— We agree. However, the Board of Supervisors is ultimately responsible for implementing this recommendation if reimbursements denied by the Auditor are appealed to the Board—if this recommendation is not written into the revised policy, which it is not.

(end of section)

Submitted by,



Robert E. Stark, CPA
Auditor-Controller

August 25, 2008