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COUNTY OF SAN BENITO

Management Report
For the Year Ended June 30, 2009

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COUNTY OF SAN BENITO

Management Report
For the Year Ended June 30, 2009

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GRACE & ASSOCIATES
Certified Public Accountants and Consultants

To the Honorable Members of the
Board of Supervisors of the County of San Benito
Hollister, California

In planning and performing our audit of the basic financial statements of the County of San Benito (County) for the fiscal year ended June 30, 2009, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

However, 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 concerning those matters. We previously reported on the County's internal control in our report dated April 28, 2010 on the financial statements of the County of San Benito.

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

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

Grace & Associates CPAs

Grace & Associates, CPAs
April 28, 2010
Hollister, California

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COUNTY OF SAN BENITO

Management Report
For the Year Ended June 30, 2009

Current Year Findings and Recommendations

HEALTH AND HUMAN SERVICES AGENCY COMMUNITY SERVICES & DEVELOPMENT DIVISION

GRANT FINANCIAL AND COMPLIANCE REPORTING

Condition

The Health and Human Services Agency Community Services and Development Division department is responsible for the accounting and financial and compliance reporting on an ongoing basis for various Federal and State grant programs. Due to employee turnover in the department a key employee left the employ of the department and the duties of that employee in so far as financial reporting was concerned which caused a disruption in the timely preparation of financial reports required by the Federal and State governments.

Effect of Condition

Delays in the preparation of reports and financial statements required to be submitted to various Federal and State agencies could jeopardize the future funding of the programs and cause increased audit costs for the County.

Recommendation

We recommend that the Health and Human Services Agency Community Services and Development Division department update their accounting policies and procedures manual regarding the grant accounting and financial reporting so that an employee can have a resource to assist them in the timely preparation of various reports required by Federal and State agencies and also review their policies concerning training and continuing education for staff involved in fiscal compliance duties.

Management Response

The County concurs with the finding and will implement the process of reviewing their accounting policies and procedures manual and will also review the training requirements necessary for completion of the various fiscal reports that comply with the latest standards for the program affected.

Status of Prior Year Findings and Recommendations
As of June 30, 2009

COMMERCIAL PAPER INVESTMENTS

COUNTY INVESTMENT POOL

Condition

The schedule of investments of the pooled funds as of the fiscal year ended June 30, 2009 reveals that certain investments in Commercial Paper were with companies that are experiencing financial difficulties (primarily financial institutions and insurance companies) because of the credit crisis that is affecting the United States.

Effect of Condition

If the companies that issued the Commercial Paper go out of business the County could lose the investment in the commercial paper.

Recommendation

We recommend that the County investigate and closely monitor the institutions that hold investment funds in order to protect the principal amount of the investment.

Management Response

The County manages the investment pool in consultation with a professional investment advisory firm and monitors the investment portfolio in a manner that will quickly respond to systemic risks encountered in the current economic markets. The investments are deemed appropriate for the County at the present time and the County no longer invests in commercial paper until such time as the financial markets stabilize and improve.

IMPACT FEE REPORTING

Condition

The various County Departments that expend Impact Fees are required to provide annual reports to the Board of Supervisors. The report should include the balance of the account at the end of the previous fiscal year, the fee received, the amount and type of expenditures made, the ending balance in the fund, and the need or justification for the continuing collection of the impact fees.

Effect of Condition

Lack of accountability over impact fees can cause funding problems in the future when the projects that the impact fees were collected for come on line.

Recommendation

We recommend that the County require that all department heads prepare and file the appropriate impact fee expenditure accountings on a timely basis.

Management Response

The County concurs with the findings and recently completed a six year review and expects to provide future required information on a timely basis.

COST PLAN ALLOCATION ACCOUNTING

Condition

The Risk Manager could not provide the necessary supporting documentation for the actual annual expenses by type of insurance coverage for both the annual financial audit and for updating the County's A-87 cost plan.

Effect of Condition

The financial statements could be misstated and certain costs may not be charged to the proper departments in the appropriate amounts.

Recommendation

We recommend that the financial information be provided in a timely manner by the Risk Manager for proper financial reporting and to assure accurate accounting in the County budget and financial statements.

Management Response

The County concurs with the finding and will take steps to ensure that the appropriate information is provided for the proper presentation in the financial statements and for accurate budgeting and cost allocation purposes.

BOARD AND TREASURER\TAX COLLECTOR

COUNTY AUDIT\TREASURY OVERSIGHT COMMITTEE

Condition

Code Section 27130 of the California Government Code recommends a county treasury oversight committee when a county is investing surplus funds. "The committee will serve to promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return on their funds by providing a more stable and predictable balance for investment by establishing criteria for the withdrawal of funds." Code Section 27131 further states the process for establishing the committee. The County of San Benito does not currently have a county audit\treasury oversight committee.

Effect of Condition

Failure to organize and involve a county audit\treasury oversight committee in the management of the county funds, may lead to a lack of established criteria for withdrawal of funds, as well as a less defined set of investment parameters.

Recommendation

We recommend that the County organize a county audit\treasury oversight committee per California Government code.

Management Response

The County Board of Supervisors will investigate the process of organizing a county audit\treasury oversight committee.

PUBLIC HEALTH ADMINISTRATION

USE OF CLEARING ACCOUNT FOR EXPENSE ALLOCATIONS

Condition

The Public Health Administration department currently records total payroll expense and various operating expenses in a clearing account. Payroll and other expenses are then separated by function and entered into the corresponding function with an adjusting journal entry.

Effect of Condition

Recording payroll and other expenses into a clearing account and then into the correct function may lead to misclassification of expenses, as well as a duplication of efforts when recording the expenses.

Recommendation

We recommend that the Public Health Administration department report and record payroll and other expenses as they are incurred to the correct department or function, without first recording them in a clearing account.

Management Response

The County concurs with the finding and continues to evaluate a solution for recording payroll expenses directly to the function for which they were incurred.