

**COUNTY OF MADERA**

**Management Report  
with Required Communication**

**For the Year Ended June 30, 2013**

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**COUNTY OF MADERA**

Management Report  
For the Year Ended June 30, 2013

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To the Honorable Members of the  
Board of Supervisors of the County of Madera  
Madera, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Madera (County) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated July 8, 2014. Professional standards also require that we communicate to you the following information related to our audit as discussed in the Required Communications section of this report.

In planning and performing our audit of the financial statements of the County of Madera for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

We previously reported on the County's internal control in our Single Audit report dated October 6, 2014, which contains our report on material weaknesses in the County's internal control. This letter does not affect our report dated October 6, 2014, on the basic financial statements of the County of Madera.

During our audit we also 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 regarding those matters.

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.

Roseville, California  
October 6, 2014

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## COUNTY OF MADERA

Management Report  
Required Communication  
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### **The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated July 8, 2014, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles and to express opinions based on the assurance obtained. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. 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 U.S. Office of Management and Budget (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 OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the County's 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.

### **Qualitative Aspects of Accounting Practices**

#### *Significant Accounting Policies*

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 ended June 30, 2013. 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.

## COUNTY OF MADERA

### Management Report Required Communication For the Year Ended June 30, 2013

#### *Significant Accounting Estimates*

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:

- Claims liability: Management's estimate is derived from actuarial valuations obtained from experts. We agreed the claims liability reported in the financial statements to those reported in actuarial reports prepared and issued during the year being audited.
- OPEB liability: Management's estimate is derived from actuarial valuations obtained from experts. We compared the liability reported in the financial statements to the actuarial report prepared and issued for the year under audit.
- Liability for solid waste landfill closure and postclosure costs: Management's estimate is based on engineering estimates of future costs to be incurred. We reviewed the engineer's estimate.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

#### **Difficulties Encountered in Performing the Audit**

We encountered significant difficulties in performing and completing our audit for the following reasons:

- County's use of two systems, IFAS (County's general ledger accounting system) and a separate system used to compile the financial statements and record adjustments not posted to IFAS.
- Fewer qualified accounting staff and lack of accounting policies and procedures covering significant areas, such as capital outlay reconciliation, resulted in several adjustments to the account balances throughout the audit engagement.

#### **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 material adjustments detected were corrected by management:

- Adjusted cash by \$4.4 million to agree pooled cash and investments to IFAS.
- Adjusted unavailable revenue by \$1.6 million in General Fund and Road Fund for revenue received after the availability period.
- Adjusted \$1.5 million in claims expense in the Internal Services Funds for claim reimbursements recorded as Other Revenue.
- Adjusted Governmental Activities Capital Assets by 1) \$3.4 million for building placed in service during the year but not retired from Construction in Progress and 2) \$3 million of public ways and facilities expenses that were not identified as capital asset additions during the reconciliation of capital outlay accounts.

There was the following immaterial misstatement identified during the audit. Management has determined that its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole:

- The County chose not to record the GASB31 fair value adjustment to its investments.



## **COUNTY OF MADERA**

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### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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 October 6, 2014.

### **Management Consultations with Other Independent Auditors**

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.

### **Issues Discussed Prior to Retention of Independent Auditors**

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.

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## COUNTY OF MADERA

Current Year Recommendations  
As of June 30, 2013

### CAPITAL OUTLAY RECONCILIATION

#### Criteria

Capital asset additions should be reconciled to the governmental fund statements to properly identify which functional expense account to adjust in the government-wide statement of activities.

#### Condition

During our review of the County's reconciliation of governmental capital asset additions to capital outlay accounts, we noted the following discrepancy:

While the County provided us with reconciliations between capital asset additions to capital outlay accounts, the County did not account for approximately \$3 million of capital asset additions classified as public ways and facilities in the governmental fund financial statements.

#### Cause of Condition

When reconciling capital asset additions to capital outlay expenditure accounts, the County did not account for assets reported in accounts other than capital outlay in the governmental funds.

#### Potential Effect of Condition

By not reconciling all capital asset additions to the general ledger, the County could misstate its capital asset balances or adjust the wrong functional expense accounts when recording capital asset additions in the government-wide statements.

#### Recommendation

We recommend the County redesign its capital asset reconciliation worksheet to account for all capital asset additions and not just those classified as capital outlay in the governmental fund statements.

#### Management Response

We will work on redesigning our reconciliation process to meet the recommendation as outlined.

**COUNTY OF MADERA**

Status of Prior Year Recommendations  
As of June 30, 2013

**LAND HELD FOR RESALE**

Recommendation

We recommend that the Auditor-Controller's Office review properties added to the year-end inventory balance by inspecting documentation such as service agreements, titles, and contracts. The reviewer should be someone other than the person responsible for tracking and maintaining the inventory account.

Management Response

The condition was not noted during the current year audit.

**DISAGGREGATION OF RECEIVABLES**

Recommendation

We recommend the County utilize its chart of accounts to account for the various receivable and payable types, including accounts receivable, loans receivable, interfund advances (and payables), amounts due from other governments and interest receivable. Year-end closing procedures should be modified to capture receivable balances into each of these accounts according to their nature.

Status

In progress – The County now uses separate accounts to identify various types of receivable and payables using a separate system other than its general ledger system.

**ACCOUNTING POLICIES AND PROCEDURES**

Recommendation

We recommend the County implement the following suggested written policies which would more effectively control and account for the County's assets, liabilities, and operating accounts:

- Documentation of year-end closing procedures and outlining of steps required for financial statement preparation.

Status

In progress.