

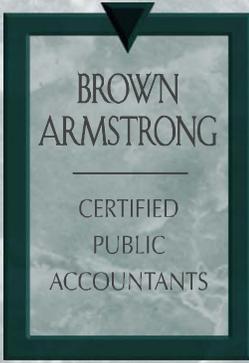
COUNTY OF KINGS
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2010

**COUNTY OF KINGS
JUNE 30, 2010**

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REPORTS



BROWN ARMSTRONG
Certified Public Accountants

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Supervisors
County of Kings
Hanford, California

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We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Kings, California, as of and for the year ended June 30, 2010, which collectively comprise the County’s basic financial statements and have issued our report thereon dated August 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Kings’ internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Kings’ internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Kings’ internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. Therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness, and other deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 a 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. We consider the deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as 2010-4, to be a material weakness.



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Accounting Oversight Board and
MEMBER of the American Institute of
Certified Public Accountants

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 2010-1 through 2010-3, to be significant deficiencies.

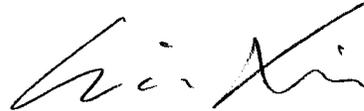
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Kings' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Questioned Costs as 2010-5.

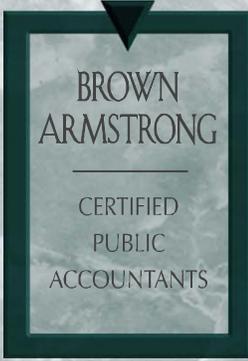
The County of Kings' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County of Kings' response to the audit findings and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, County of Kings' Board of Supervisors and management of the County, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "G. A. Smith", is written over the printed name of the firm.

Bakersfield, California
August 12, 2011



BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Supervisors
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Compliance

We have audited the compliance of County of Kings, California (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-5.



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Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-4 and 2010-5 to be material weaknesses.

The County's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's response to the audit findings and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County, as of and for the year ended June 30, 2010, and have issued our report thereon dated August 12, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the Board of Supervisors and management of the County, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
August 12, 2011

FINANCIAL STATEMENTS

COUNTY OF KINGS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number		Supplemental Identifying Number	Federal Expenditures
Department of Agriculture:				
Passed Through California Department of Social Services:				
Special Supplemental Food Program for Women, Infants & Children (WIC)	10.557	*	Kings (County 16)	\$ 1,459,070
State Administrative Matching Grants for Food Stamps Program	10.561	*	Kings (County 16)	1,150,798
Total Department of Agriculture				<u>2,609,868</u>
Department of Health and Human Services:				
Passed Through California Department of Social Services:				
Family Planning Services	93.217		Kings (County 16)	139,711
Family Preservation & Support Services	93.556		Kings (County 16)	135,135
Temporary Assistance for Needy Families (TANF)	93.558	*	Kings (County 16)	18,019,403
TANF Kinship Guardianship Assistance Program (KIN GAP)	93.558	*	Kings (County 16)	486,841
Subtotal				<u>18,506,244</u>
ARRA - Emergency Contingency Fund for TANF (NTSB)	93.714	*	Kings (County 16)	98,276
ARRA - Emergency Contingency Fund for TANF (SE)	93.714	*	Kings (County 16)	320,297
Subtotal				<u>418,573</u>
Subtotal - TANF Cluster				<u>18,924,817</u>
Child Welfare Services	93.645		Kings (County 16)	121,587
Foster Care - Title IV-E	93.658	*	Kings (County 16)	2,737,633
ARRA - Foster Care - Title IV-E	93.658	*	Kings (County 16)	157,153
Subtotal				<u>2,894,786</u>
Adoption Assistance	93.659	*	Kings (County 16)	1,160,727
ARRA - Adoption Assistance	93.659	*	Kings (County 16)	125,917
Subtotal				<u>1,286,644</u>
Social Services Block Grant - Title XX	93.667		Kings (County 16)	776,130
Independent Living	93.674		Kings (County 16)	51,950
Child Support Enforcement Program	93.563	*	Kings (County 16)	3,666,068
ARRA - Child Support Enforcement Program	93.563	*	Kings (County 16)	467,599
Subtotal				<u>4,133,667</u>
Preventative Health Services Block Grant	93.991		Kings (County 16)	403,184
Total Department of Health and Human Services				<u>28,867,611</u>

(Continued)

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

COUNTY OF KINGS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number		Supplemental Identifying Number	Federal Expenditures
Department of Labor:				
Passed Through California Employment Development Department:				
Workforce Investment Act (WIA) Adult Program	17.258	*	R970539	250,316
WIA Adult Program	17.258	*	K074143	568,874
ARRA - WIA Adult Program	17.258	*	R970539	<u>387,843</u>
Subtotal				<u>1,207,033</u>
WIA Youth Activities	17.259	*	R970539	217,526
WIA Youth Activities	17.259	*	K074143	479,060
ARRA - WIA Youth Activities	17.259	*	R970539	<u>1,038,910</u>
Subtotal				<u>1,735,496</u>
WIA Dislocated Workers	17.260	*	R970539	456,916
WIA Dislocated Workers	17.260	*	K074143	337,699
ARRA - WIA Dislocated Workers	17.260	*	R970539	<u>434,938</u>
Subtotal				<u>1,229,553</u>
Total Department of Labor - WIA Cluster				<u>4,172,082</u>
Department of Housing and Urban Development:				
Community Development Block Grants/Entitlement Grants	14.218		N/A	<u>776,964</u>
U.S. Department of Homeland Security:				
Passed Through Governor's Office of Emergency Services:				
State Homeland Security Program	97.073		Kings (County 16)	<u>602,688</u>
U.S. Department of Justice:				
Juvenile Justice Grant	16.540		N/A	<u>355,720</u>
BJA-Bryne JAG	16.804		N/A	<u>64,028</u>
Special Assignment Narcotic Abatement Team	16.580		N/A	<u>203,693</u>
State Criminal Alien Assistance Program	16.606		N/A	<u>102,314</u>
Gang Resistance Education & Training	16.737		N/A	<u>24,844</u>
Passed Through Governor's Office of Emergency Services:				
JAG - Victim Witness Assistance Recovery Act Program	16.803		031-00000	18,159
JAG - Offender Treatment Recovery Act Program	16.803		031-00000	<u>57,037</u>
Subtotal				<u>75,196</u>
Total U.S. Department of Justice				<u>825,795</u>
Total Federal Financial Assistance				<u>\$ 37,855,008</u>

* Major Programs

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

COUNTY OF KINGS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all of the Federal awards programs of the County of Kings, California (the County), for the year ended June 30, 2010. The County reporting entity is defined in Note 1 to the County's basic financial statements. Federal awards received directly from Federal agencies, as well as Federal awards passed through other government agencies, are included on this schedule.

NOTE 2 – BASIS OF ACCOUNTING

Consistent with the County's method of filing Federal financial reports, the accompanying Schedule of Expenditures of Federal Awards is presented using the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements. The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the County's financial statements.

NOTE 3 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related periodic federal financial reports.

NOTE 4 – PASS-THROUGH ENTITY IDENTIFYING NUMBERS

When Federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the County has either determined that no identifying number is assigned for the program or the County was unable to obtain an identifying number from the pass-through entity.

FINDINGS AND QUESTIONED COSTS

**COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010**

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? X Yes No
- Significant deficiency(s) identified that are not considered to be material weaknesses? X Yes No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness identified? X Yes No
- Significant deficiency(s) identified that are not considered to be material weaknesses? Yes X No

Noncompliance material to federal awards? Yes X No

Type of auditor's report issued on compliance for major Federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a) X Yes No

Identification of Major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Food Program for Women, Infants & Children (WIC)
10.561	State Administrative Matching Grants For Food Stamps Program
93.658	Foster Care – Title IV–E, including ARRA Grant
93.659	Adoptions Assistance, including ARRA Grant
93.563	Child Support, including ARRA Grant
93.558, 93.714	Temporary Assistance for Needy Families Cluster, including ARRA Grant
17.258, 17.259, 17.260	Workforce Investment Act (WIA) Cluster, including ARRA Grants

The threshold for distinguishing type A and B programs was \$1,135,650.

Auditee was determined to be a low risk auditee? No

COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

2. Findings Relating to Financial Statements Required Under Government Auditing Standards

2010-1 – Capital Assets

Criteria:

In accordance with Governmental Accounting Standards, a governmental accounting system must make it possible to present fairly and with full disclosure the financial position and results of financial operations of the fund and account groups of the governmental unit in conformity with accounting principles generally accepted in the United States of America. Management is responsible for establishing and maintaining internal controls that allow for the fair presentation of financial position and results of financial operations.

Condition:

During our analysis of capital assets, we noted that the County does not have adequate procedures for tracking capital assets. Various stand-alone reports are produced and extensive analysis of detailed accounts is required to compile capital asset activity for presentation in the financial statements. In addition, the schedules provided are not kept up to date and at the end of the year additional research, detail analysis, and extensive effort is required manually in order to compile the year-end data.

Cause:

The County doesn't have adequate procedures for tracking capital assets purchased throughout the year.

Effect:

The additional research and extensive analysis at the end of the year increases the likelihood of improper accountability of capital assets and oftentimes leads to material prior period adjustments in subsequent years.

Recommendation:

Capital asset activity should be adequately tracked during the year to avoid unnecessary and extensive manual efforts to compile capital assets. The County should consider investing in accounting software to eliminate the additional manual work that is currently being done by the accountant.

Management Response/Corrective Action Plan:

We are in the process of evaluating how the upgrade to the new Sunguard/Pentamation Financial Management System (FMS) from our prior year system FMS has impacted our ability to reduce the amount of manual effort it has traditionally required to complete the County's financial statements. The reduction of two full-time positions (one senior accountant and one clerk) from an already bare-bones staffing level over the past two years has had a severe impact on our ability to assign staff to non-traditional additional duties. We are attempting, albeit slowly, to arrive at a monthly closing process that will identify processes and assign responsibilities in a more comprehensive fashion in order to reduce the need for additional manual efforts to reconcile and report the County's capital assets.

COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

2010-2 – General Ledger, Fund Balances, and Financial Statement Schedules

Criteria:

In accordance with Governmental Accounting Standards, a governmental accounting system must make it possible to present fairly and with full disclosure the financial position and results of financial operations of the fund and account groups of the governmental unit in conformity with accounting principles generally accepted in the United States of America. Management is responsible for establishing and maintaining internal controls that allow for the fair presentation of financial position and results of financial operations.

Condition:

During our audit, we encountered significant difficulties tracing financial statement balances to the original book of entry and substantiating the year-end balances.

Cause:

The County performs the day-to-day operations and records transactions in the general ledger; however, when preparing financial statements, the unadjusted balances are exported from the County's general ledger to a software used to re-code accounts for financial statement presentation purposes and several templates and excel spreadsheets are prepared to generate financial statement schedules.

Effect:

Over 100 journal entries were posted to excel fund schedules and each material entry had to be analyzed individually. We found the schedules, which are the basis for financial statement presentation, to be complex and difficult to audit. In addition, prior year adjusting journal entries are not posted to the original book of entry. Rather, all journal entries are posted in excel spreadsheets. Therefore, the County general ledger is perpetually different from the financial statements. We are aware that the County is in the process of analyzing new accounting software that should improve and facilitate the tracing to the general ledger, posting of journal entries, and the preparation of the financial statements.

Recommendation:

The County's accounting software is outdated. The process for tracing to the general ledger is difficult, lengthy, and inefficient for preparing the financial statements. We recommend the County review its chart of accounts, fund structure, and the recording of transactions to build integrity in the financial statement preparation process and evaluate and restructure funds and accounts to properly segregate County activities from non-County funds and activities. Also, County staff should evaluate the proper presentation of all County activities to properly conclude that the fund and account presentation is correct to record resources received and utilized by the County. In addition, we recommend the County consider investing in accounting software with the capability to record journal entries as a short-term solution while the County is considering a new general ledger system. The recording of journal entries in the accounting software would facilitate the preparation of the financial statements. The accounting software to consider should have the capability to link numbers to excel and create financial statements in excel.

Management Response/Corrective Action Plan:

Fiscal year 2010 was the first full year of use with the new FMS. However, the implementation of the system did not change the processes or closing procedures necessary to present our financials in the required modified accrual format. Manual adjusting entries outside of the system were still necessary. We are currently researching solutions to these issues and are implementing monthly and year-end procedures to get us to the point where we can have all adjustments reflected in the system.

COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

2010-3 – Fiduciary Funds

Criteria:

In accordance with Governmental Accounting Standards, a governmental accounting system must make it possible to present fairly and with full disclosure the financial position and results of financial operations of the fund and account groups of the governmental unit in conformity with accounting principles generally accepted in the United States of America. Management is responsible for establishing and maintaining internal controls that allow for the fair presentation of financial position and results of financial operations.

Condition:

- The County initially records deferred revenue in the respective governmental fund and during the year transfers the amounts via adjusting journal entries to internal agency funds to keep track of deferred revenue on a cash basis. However, the amounts transferred are not coded to “due to others” or another similar account to keep track of these amounts. Instead, these amounts are coded to fund balance and, at the end of the year, the amounts remaining are moved to the correct governmental fund and recorded as deferred revenue.
- Various non-fiduciary activities are recorded in fiduciary funds and at year-end are adjusted out of the fiduciary funds and recorded in the proper funds.

Cause:

The County doesn't have adequate procedures for recording, reporting, and reconciling the fiduciary funds throughout the year.

Effect:

As fiduciary funds are only adjusted at year-end, it is difficult to identify to which funds certain activity should be adjusted. This has led to significant material misstatements in the fiduciary funds and governmental and proprietary funds that have been adjusted in subsequent years by making prior period adjustments.

Recommendation:

- The County should revisit its method of tracking deferred revenue in the fiduciary funds. If the County's method to track deferred revenue is via internal agency funds, the initial recording of these amounts should occur in these internal agency funds rather than in the governmental funds. In addition, tracking deferred revenue in agency funds should include coding the balances to accounts such as “due to other agency” rather than fund balance. The County's current method increases the likelihood of recording/reporting deferred revenue in the incorrect fund and results in difficulties in identifying to which fund the deferred revenue should be reported.
- We recommend the County review its policies and procedures and fund definitions and purposes. All non-fiduciary activity that is now being recorded in fiduciary funds should be recorded in the correct fund when the activity takes place rather than making year-end adjustments. It is difficult to identify all non-fiduciary activity for an entire year and to determine in which fund it should be reported. In addition, transferring the non-fiduciary activities at year-end involves extensive analysis and increases the risk that not all activity is identified and reported in the correct fund. This results in misstating net income in the governmental and proprietary funds in addition to misstating the balances in the fiduciary funds.

Management Response/Corrective Action Plan:

As mentioned above in 2010-1, we are attempting to arrive at a monthly closing process that will identify processes and assign responsibilities in a more comprehensive fashion in order to establish adequate procedures for recording, reporting, and reconciling the fiduciary funds on an on-going basis rather than attempting to sort everything out at year-end. Again, the limitations of current staffing will play a part in our ability to fully and comprehensively address this finding.

COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

2010-4 – Closing Process/Adjusting Journal Entries

Criteria:

In accordance with Governmental Accounting Standards, a governmental accounting system must make it possible to present fairly and with full disclosure the financial position and results of financial operations of the fund and account groups of the governmental unit in conformity with accounting principles generally accepted in the United States of America. Management is responsible for establishing and maintaining internal controls that allow for the fair presentation of financial position and results of financial operations.

Condition:

We have noted through our audit process that the County encounters difficulties in closing the books and in preparation of the financial statements and annual reports.

Cause:

The County primarily relies on one individual to complete the extensive process, which includes numerous adjusting entries, which included in a prior year over 200 adjusting entries for the financial statements, conversion, and fiduciary balances to be correct. Entries not only include conversion of the cash basis general ledger to accrual and financial statement presentation, but also includes several entries including but not limited to reversing advances, reclass of asset balances, removal and reconciliation of transfers and corresponding expenses and revenues, correction of expenses, and recording of debt service expenses and interest expense.

Effect:

As noted in current and prior year findings, the County goes through an extensive process to convert the general ledger into financial statement presentation. The process takes the County an extensive amount of time, which greatly delays the audit process and completion of the County Annual Financial Report.

Recommendation:

- We recommend that the County increase training and delegate closing responsibilities and account balances to more than one individual to assist in speeding up the closing process.
- We recommend that the County also increase training for accounting staff and/or implement new review procedures over account balances to decrease the amount of reconciliation and correction of errors needed at year-end to prepare County accounts for financial statement presentation.

Management Response/Corrective Action Plan:

We agree with this finding and as previously mentioned we will be developing an internal process during the coming year to address this finding.

**COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010**

3. Findings and Questioned Costs for Federal Awards

2010-05 - Report Submission

Criteria:

OMB Circular A-133 requires that the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's reports, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition:

The County did not submit the Single Audit report and data collection form within nine months of its fiscal year-end.

Cause:

There was a significant delay in financial reporting. The annual required audit was not completed until May 2011.

Effect:

The County's Single Audit report was not issued within nine months of its fiscal year-end and did not meet the established filing requirements under OMB Circular A-133.

Questioned Cost:

None.

Recommendation:

We recommend that the County work to ensure prompt release of the County financial statements along with the Single Audit report and data collection form in order to be in compliance with OMB Circular A-133.

Management Response/Corrective Action Plan:

We agree with this finding and as previously mentioned we will be developing an internal process during the coming year to address this finding. We will be requesting in the next fiscal year an additional senior level accountant position whose primary responsibility will be to assist in resolving the internal systemic issues that are preventing us from completing the financial reports within the nine-month time frame. Additionally, staff will be reassigned and given specific responsibilities for analyzing and reconciling capital assets, fiduciary funds, transfers in/out, and due to/from transactions.

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4. Status of Prior Year Findings and Recommendations

2009-1 – Capital Assets

Condition:

During our analysis of capital assets, we noted that the County does not have adequate procedures for tracking capital assets. Various stand-alone reports are produced and extensive analysis of detailed accounts is required to compile capital asset activity for presentation in the financial statements. In addition, the schedules provided are not kept up to date and at year-end additional research, detail analysis, and extensive effort is required manually in order to compile the year-end data. The additional research and extensive analysis at year-end increases the likelihood of improper accountability of capital assets and oftentimes leads to material prior period adjustments in subsequent years.

Recommendation:

Capital asset activity should be adequately tracked during the year to avoid unnecessary and extensive manual efforts to compile capital assets. The County should consider investing in accounting software to eliminate the additional manual work that is currently being done by the accountant.

Management Response:

The County has just implemented a new accounting system and reports generated after the 2009-10 fiscal year should eliminate the need for manual schedules.

Current Year Status:

Management continues to improve, however full implementation of the finding continues to impact the County. See current year Finding 2010-1.

2009-2 – General Ledger, Fund Balances, and Financial Statement Schedules

Condition:

During our audit's final fieldwork, we encountered significant difficulties tracing financial statement balances to the original book of entry and substantiating the year-end balances. The County performs the day-to-day operations and records transactions in the general ledger; however, when preparing financial statements, the unadjusted balances are exported from the County's general ledger to a software used to re-code accounts for financial statement presentation purposes and several templates and excel spreadsheets are prepared to generate financial statement schedules. Support was provided for the unadjusted balances and then numerous adjusting journal entries were posted to excel fund schedules to arrive at the ending financial statement balances. Over 100 journal entries were posted to excel fund schedules and each material entry had to be analyzed individually. We found the schedules, which are the basis for financial statement presentation, to be complex and difficult to audit. In addition, prior year adjusting journal entries are not posted to the original book of entry; rather, all journal entries are posted in excel spreadsheets. Therefore, the County general ledger is perpetually different from the financial statements. We are aware that the County is in the process of analyzing new accounting software that should improve and facilitate the tracing to the general ledger, posting of journal entries, and the preparation of the financial statements.

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Recommendation:

The County's accounting software is outdated. The process for tracing to the general ledger is difficult, lengthy, and inefficient for preparing the financial statements. We recommend the County review its chart of accounts, fund structure, and the recording of transactions to build integrity in the financial statement preparation process and evaluate and restructure funds and accounts to properly segregate County activities from non-County funds and activities. Also, County staff should evaluate the proper presentation of all County activities to properly conclude that the fund and account presentation is correct to record resources received and utilized by the County. In addition, we recommend the County consider investing in accounting software with the capability to record journal entries as a short-term solution while the County is considering a new general ledger system. The recording of journal entries in the accounting software would facilitate the preparation of the financial statements. The accounting software to consider should have the capability to link numbers to excel and create financial statements in excel. This would speed up the drafting process.

Management Response:

The County has just implemented a new accounting system and reports generated after the 2009-10 fiscal year should eliminate the need for manual schedules.

Current Year Status:

Management continues to improve, however full implementation of the finding continues to impact the County. See current year Finding 2010-2.

2009-3 – Fiduciary Funds

Conditions:

- The County initially records deferred revenue in the respective government fund and during the year transfers the amounts via adjusting journal entries to internal agency funds to keep track of deferred revenue on a cash basis. However, the amounts transferred are not coded to "due to others" or another similar account to keep track of these amounts. Instead, these amounts are coded to fund balance and, at the end of the year, the amounts remaining are moved to the correct governmental fund and recorded as deferred revenue. This method of tracking deferred revenue leads to material prior period adjustments in subsequent years.
- Various non-fiduciary activities are recorded in fiduciary funds and at year-end are adjusted out of the fiduciary funds and recorded in the proper funds by the accountant. Because an entire year's activities are recorded in the fiduciary funds and only adjusted at year-end, it is difficult to identify to which funds certain activity should be adjusted. This has led to significant material misstatements in the fiduciary funds and governmental and proprietary funds that have been adjusted in subsequent years by making prior period adjustments.

Recommendations:

- The County should revisit its method of tracking deferred revenue in the fiduciary funds. If the County's method to track deferred revenue is via internal agency funds, the initial recording of these amounts should occur in these internal agency funds rather than in the governmental funds. In addition, tracking deferred revenue in agency funds should include coding the balances to accounts such as "due to other agency" rather than fund balance. The County's current method increases the likelihood of recording/reporting deferred revenue in the incorrect fund and results in difficulties in identifying to which fund the deferred revenue should be reported.

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- We recommend the County review its policies and procedures and fund definitions and purposes. All non-fiduciary activity that is now being recorded in fiduciary funds should be recorded in the correct fund when the activity takes place rather than making year-end adjustments. It is difficult to identify all non-fiduciary activity for an entire year and to determine in which fund it should be reported. In addition, transferring the non-fiduciary activities at year-end involves extensive analysis and increases the risk that not all activity is identified and reported in the correct fund. This results in misstating net income in the governmental and proprietary funds in addition to misstating the balances in the fiduciary funds.

Management Response:

We agree with the auditor's finding and will attempt to further implement the recommendation bar budget cuts and limited staff.

Current Year Status:

Management continues to improve, however full implementation of the finding continues to impact the County. See current year Finding 2010-3.

2009-4 – Closing Process/Adjusting Journal Entries

Condition:

We have noted through our audit process that the County encounters difficulties in closing the books and in preparation of the financial statements and annual reports. As noted in prior year findings, the County goes through an extensive process to convert the general ledger into financial statement presentation. The County primarily relies on one individual to complete the extensive process, which includes numerous adjusting entries, which included in the prior year over 200 adjusting entries for the financial statements, conversion, and fiduciary balances to be correct. Entries not only include conversion of the cash basis general ledger to accrual and financial statement presentation, but also includes several entries including but not limited to reversing advances, reclass of asset balances, removal and reconciliation of transfers and corresponding expenses and revenues, correction of expenses, and recording of debt service expenses and interest expense. The process takes the County an extensive amount of time, which greatly delays the audit process and completion of the County CAFR.

Recommendations:

- We recommend that the County increase training and delegate closing responsibilities and account balances to more than one individual to assist in speeding up the closing process.
- We recommend that the County also increase training for accounting staff and/or implement new review procedures over account balances to decrease the amount of reconciliation and correction of errors needed at year-end to prepare County accounts for financial statement presentation.

Management Response:

We agree with the auditor's finding and will attempt to implement the recommendation bar budget cuts and limited staff.

Current Year Status:

Management continues to improve, however full implementation of the finding continues to impact the County. See current year Finding 2010-4.