

COUNTY OF KINGS
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2011

**COUNTY OF KINGS
JUNE 30, 2011**

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REPORTS

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

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

MAIN OFFICE

4200 TRUXTUN AVENUE

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE

SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

8050 N. PALM AVENUE

SUITE 300
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

790 E. COLORADO BLVD.

SUITE 908B
PASADENA, CALIFORNIA 91101
TEL 626.240.0920
FAX 626.240.0922

5250 CLAREMENT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

We have audited the financial statements of the governmental 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, 2011, which collectively comprise the County of Kings' financial statements and have issued our report thereon dated July 30, 2012. 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

Management of the County of Kings, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered 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 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 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies 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 County of Kings' financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2011-3 as described in the accompanying schedule of findings and questioned costs 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, 2011-1 and 2011-2, as described in the accompany schedule of findings and questioned costs to be significant deficiencies.

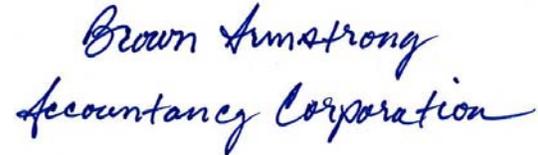
Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2011-4 and 2011-5.

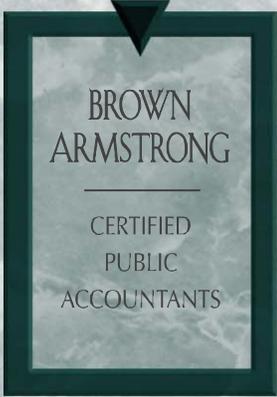
County of Kings' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit County of Kings' response and, accordingly, we express no opinion on it.

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

Handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation".

Bakersfield, California
July 30, 2012



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
County of Kings
Hanford, California

MAIN OFFICE
4200 TRUXTUN AVENUE

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
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560 CENTRAL AVENUE

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TEL 661.746.2145
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FAX 559.476.3593

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SUITE 908B
PASADENA, CALIFORNIA 91101
TEL 626.240.0920
FAX 626.240.0922

5250 CLAREMENT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

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, 2011. 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, 2011. 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 items 2011-4 and 2011-5.



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Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the 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 to determine the 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 and other deficiencies that we consider to be significant deficiencies.

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 a 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 2011-4 and 2011-5 to be material weaknesses.

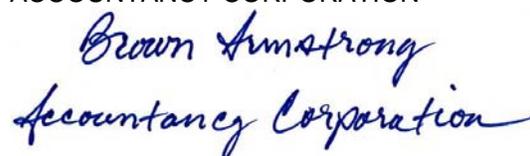
The County's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's response to the audit findings and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County, as of and for the year ended June 30, 2011, and have issued our report thereon dated July 30, 2012. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the County's 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 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 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

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California
August 21, 2012

FINANCIAL STATEMENTS

**COUNTY OF KINGS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA No.	Supplemental Identifying Number	Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through California Department of Social Services:			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	08-85433	\$ 1,708,312
ARRA - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	County 16	<u>17,630</u>
Subtotal			<u>1,725,942</u>
State Administrative Matching Grants for Food Stamp Program	10.561	County 16	1,327,941
ARRA - SNAP Administration	10.561	County 16	<u>39,667</u>
Subtotal			<u>1,367,608</u>
<i>TOTAL U.S. DEPARTMENT OF AGRICULTURE</i>			<u>3,093,550</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Programs			
Community Development Block Grants (CDBG)/Entitlement Program	14.218	N/A	560,746
CDBG/State's Program - Neighborhood Stabilization Program	14.228*	N/A	1,242,045
HOME Investment Partnerships Program	14.239	N/A	310,771
Housing Opportunities for People with AIDS (HOPWA)	14.241	10-10135	<u>63,919</u>
<i>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</i>			<u>2,177,481</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
JAG Program Cluster:			
Direct Programs			
BJA - Byrne JAG	16.804*	N/A	<u>15,285</u>
Passed through Office of California Emergency Management Agency (CalEMA)			
Anti Drug Abuse Enforcement	16.738*	N/A	<u>166,075</u>
ARRA Evidence-Based Probation Supervision Program Recovery Act	16.804*	ZP09010160	85,253
ARRA - Anti-Drug Abuse Enforcement Team Recovery Act	16.804*	N/A	89,395
ARRA JAG Offender Treatment Recovery Act Program	16.804*	031-00000	<u>144,079</u>
Subtotal			<u>318,727</u>
Total JAG Program Cluster			<u>500,087</u>
Direct Programs			
State Criminal Alien Assistance Program	16.606	N/A	<u>74,126</u>
COPS Technology Grant 2010	16.710	2010CKWX0109	111,489
COPS Technology Grant 2009	16.710	2009CKWX0123	<u>230,082</u>
Subtotal			<u>341,571</u>
Passed through Office of California Emergency Management Agency (CalEMA)			
ARRA - JAG Victim Witness Assistance Program	16.801	VS09010160	<u>11,323</u>
<i>TOTAL U.S. DEPARTMENT OF JUSTICE</i>			<u>927,107</u>

* Major Programs

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, 2011

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA No.	Supplemental Identifying Number	Federal Expenditures
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed through State Department of Employment Development			
Workforce Investment Act - Adult Program	17.258*	K074143	197,517
Workforce Investment Act - Rapid Response	17.258*	K074143	309
Workforce Investment Act - Adult Program	17.258*	K1788662	733,613
Workforce Investment Act - Rapid Response	17.258*	K1788662	15,879
ARRA Workforce Investment Act - Adult Program	17.258*	R970539	<u>220,360</u>
Subtotal			<u>1,167,678</u>
Workforce Investment Act - Youth Program	17.259*	K074143	116,186
Workforce Investment Act - Youth Program	17.259*	K178662	723,302
ARRA Workforce Investment Act - Youth Program	17.259*	R970539	<u>43,752</u>
Subtotal			<u>883,240</u>
Workforce Investment Act - Dislocated Workers Program	17.260*	K074143	411,814
Workforce Investment Act - Dislocated Workers Program	17.260*	K178662	157,899
ARRA- Workforce Investment Act - Dislocated Workers Program	17.260*	R970539	209,463
ARRA- Rapid Response	17.260*	R970539	164,766
ARRA- Rapid Response	17.260*	R970539	<u>173,927</u>
Subtotal			<u>1,117,869</u>
Total Workforce Investment Act Program Cluster			<u>3,168,787</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>3,168,787</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct Federal Program			
ARRA - Regional Surface Transportation Program (Highway Planning)	20.205*	5945 (075/077)	<u>2,124,875</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>2,124,875</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Program			
Center of Disease Control (CDC) - Public Health Emergency Preparedness (PHEP)	93.069	EPO 11-17	<u>240,983</u>
Family Planning Services	93.217	3480039	<u>123,862</u>
Immunization Sub-Prevention Grants	93.268	10-95375	<u>58,632</u>
Passed through State Department of Social Services			
Family Preservation & Support Services	93.556	County 16	<u>119,165</u>
Temporary Assistance for Needy Families (TANF) Cluster:			
TANF/CW Assistance	93.558*	County 16	16,493,511
Kinship Guardianship Assistance Program (KIN GAP)	93.558*	County 16	285,382
ARRA - ECF (NTSB)	93.714*	County 16	122,922
ARRA - ECF (SE)	93.714*	County 16	<u>668,844</u>
Subtotal - TANF Cluster			<u>17,570,659</u>

* Major Programs

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, 2011

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA No.	Supplemental Identifying Number	Federal Expenditures
Child Welfare Services	93.645	County 16	119,751
Foster Care - Title IV-E	93.658	County 16	3,447,575
ARRA - Foster Care - Title IV-E	93.658	County 16	105,565
Subtotal			3,553,140
Child Support Enforcement	93.563	County 16	4,020,494
ARRA Child Support Enforcement	93.563	County 16	113,173
Subtotal			4,133,667
Adoption Assistance	93.659	County 16	1,185,486
ARRA - Adoption Assistance	93.659	County 16	91,065
Subtotal			1,276,551
Social Services Block Grant - CWS Title XX	93.667	County 16	655,480
Independent Living	93.674	County 16	48,461
California Children Services	93.778	County 16	160,958
Targeted Case Management (TCM)	93.778	County 16	265,370
Medi-Cal Administrative Activities (MAA)	93.778	County 16	38,390
Center of Disease Control (CDC) - Hospital Preparedness Program (HHP)	93.889	County 16	58,426
Health Resources & Services Admin. - Ryan White Part B	93.917	County 16	79,830
Preventative Health Services - EPIC	93.977	County 16	30,086
Maternal & Child Health	93.994	County 16	134,018
Preventative Health Services Block Grant	93.991	County 16	445,980
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			29,113,409
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed through State of California Emergency Management Agency (CalEMA) State Homeland Security Program (SHSP)	97.073	County 16	60,354
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			60,354
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 40,665,563

* 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, 2011

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, 2011. The County reporting entity is defined in Note 1 to the County's 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 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, 2011**

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? X Yes 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>
14.228	CDBG/State's Program – Neighborhood Stabilization Program
17.258, 17.259, 17.260	Workforce Investment Act (WIA) Cluster, including ARRA Grants
16.738, 16.804	JAG Program Cluster, including ARRA Grants
20.205	ARRA - Regional Surface Transportation Program (Highway Planning)
93.558, 93.714	Temporary Assistance for Needy Families Cluster, including ARRA Grants

The threshold for distinguishing type A and B programs was \$1,219,967.

Auditee was determined to be a low risk auditee? Yes X No

COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

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

2011-1 – General Ledger, Fund Balances, and Financial Statement Schedules

Criteria:

In accordance with *Government Auditing 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 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:

Numerous journal entries were posted to the financial statement software and each material entry had to be analyzed individually. We found the resulting schedules and reports, 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. Therefore, the County general ledger is perpetually different from the financial statements. We are aware that the County is in the process of utilizing a 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:

We recommend the recording of journal entries in the accounting software to facilitate the preparation of the financial statements. The County should continue to improve and implement monthly and year-end procedures to further close the gap between the general ledger and the financial statements, and to have all adjustments, both closing and audit adjustments, reflected in the accounting system.

Management Response/Corrective Action Plan:

Management agrees with this finding. We will review our journal entries in order to determine how we can improve our monthly and year-end procedures.

COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

2011-2 – Fiduciary Funds

Criteria:

In accordance with *Government Auditing 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 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 does not 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 which activity in certain funds need adjustment. This has led to significant material misstatements in the fiduciary funds, governmental and proprietary funds, which required adjustment in subsequent years via 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:

Management agrees with this finding. As this procedure is related to the budget process, we will work with our administrative office to improve this area.

COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

2011-3 – Closing Process/Adjusting Journal Entries

Criteria:

In accordance with *Government Auditing 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 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 to two individuals to complete this extensive process, which includes numerous adjusting entries, and 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's 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:

Management agrees with this finding. Our ability to add additional staff is limited due to budget restraints. The auditor's function has a staff of six employees to process and reconcile accounting transactions. The finance department requested two additional staff for the auditor's function, administration has recommended one. In addition, training in financial statement preparation has been provided to staff this fiscal year and more is scheduled for September. Additional training on our new financial statement preparation software will also take place this fiscal year. We have prepared a financial statement preparation schedule for our June 30, 2012, financial statements and will meet weekly to discuss items of concern, progress and provide education.

COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

3. Findings and Questioned Costs for Federal Awards

2011-4 - Report Submission

Programs: CDBG/State's Program – Neighborhood Stabilization Program; Workforce Investment Act (WIA) Cluster, including ARRA Grants; JAG Program Cluster, including ARRA Grants; ARRA - Regional Surface Transportation Program (Highway Planning); Temporary Assistance for Needy Families Cluster, including ARRA Grants.

CFDA Numbers: 14.228, 17.258, 17.259, 17.260, 16.738, 16.804, 20.205, 93.558, and 93.714.

Federal and Passed-Through Agencies: U.S. Department of Human Services – Passed-Through State Department of Social Services; Direct Program – U.S. Department of Housing and Urban Development; U.S. Department of Labor – Passed-Through State Department of Employment Development; Direct Program – U.S. Department of Justice; U.S. Department of Justice – Passed Through Office of California Emergency Management Agency (CalEMA); Direct Program – U.S. Department of Transportation

Award Year: Fiscal Year 2010/11

Compliance Requirement: Reporting

Questioned Costs: None

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 July 2012.

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.

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:

Management agrees with this finding. We will be adding an additional staff member to assist in this area, we have prepared a schedule for our June 30, 2012, financial statements and will meet weekly to stay on track for the December issuance of financial statements and the March issuance of the Single Audit.

COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

2011-5 – Schedule of Expenditures of Federal Awards

Programs: CDBG/State's Program – Neighborhood Stabilization Program; Workforce Investment Act (WIA) Cluster, including ARRA Grants; JAG Program Cluster, including ARRA Grants; ARRA - Regional Surface Transportation Program (Highway Planning); Temporary Assistance for Needy Families Cluster, including ARRA Grants.

CFDA Numbers: 14.228, 17.258, 17.259, 17.260, 16.738, 16.804, 20.205, 93.558, and 93.714.

Federal and Passed-Through Agencies: U.S. Department of Human Services – Passed-Through State Department of Social Services; Direct Program – U.S. Department of Housing and Urban Development; U.S. Department of Labor – Passed-Through State Department of Employment Development; Direct Program – U.S. Department of Justice; U.S. Department of Justice – Passed Through Office of California Emergency Management Agency (CalEMA); Direct Program – U.S. Department of Transportation

Award Year: Fiscal Year 2010/11

Compliance Requirement: Reporting

Questioned Costs: None

Criteria:

OMB Circular A-133 requires that recipients of federal awards must prepare a Schedule of Expenditures of Federal Awards for the period covered by the recipient's financial statements and provide total Federal awards expended for each individual federal program.

Condition:

During our audit procedures, it was noted that the County doesn't actively seek out all Federal grants of the County and ensure that the Schedule of Expenditures of Federal Awards is complete and accurate.

Cause:

The County lacks an appropriate internal control reconciling process to ensure the Schedule of Expenditures of Federal Awards is complete and accurate for each reporting period.

Effect:

Prior to the completion of our audit procedures, the County's Schedule of Expenditures of Federal Awards was incomplete and not accurate for the current reporting period.

Recommendation:

We recommend that the County create and implement a process that includes the participation of all County departments to ensure that the Schedule of Expenditures of Federal Awards is complete and accurately reports all Federal awards awarded, administered, and expended by the County for the current reporting period.

Management Response/Corrective Action Plan:

Management agrees with this finding. We have already identified areas requiring improvement and will implement changes for our June 30, 2012, reports. These include: monitoring board agendas for grant requests, periodic meetings with each department to discuss grant funds, and reconciling the Schedule of Expenditures of Federal Awards to our general ledger system.

COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

4. Status of Prior Year Findings and Recommendations

2010-1 – Capital Assets

Criteria:

In accordance with *Government Auditing 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 does not 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.

Current Year Status:

Implemented.

COUNTY OF KINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

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

Criteria:

In accordance with *Government Auditing 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 of entries 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, 2011

Current Year Status:

Management continues to improve, however full implementation of the finding continues to impact the County. See current year Finding 2011-1.

2010-3 – Fiduciary Funds

Criteria:

In accordance with *Government Auditing 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.

COUNTY OF KINGS
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JUNE 30, 2011

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.

Current Year Status:

Management continues to improve, however full implementation of the finding continues to impact the County. See current year Finding 2011-2.

2010-4 – Closing Process/Adjusting Journal Entries

Criteria:

In accordance with *Government Auditing 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's 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
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Current Year Status:

Management continues to improve, however full implementation of the finding continues to impact the County. See current year Finding 2011-3.

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.

Current Year Status:

Management continues to improve, however full implementation of the finding continues to impact the County. See current year Finding 2011-4.