

**COUNTY OF BUTTE**  
**SINGLE AUDIT REPORT**  
**JUNE 30, 2010**

**COUNTY OF BUTTE**

Single Audit Report  
For the Year Ended June 30, 2010

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**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***

To the Board of Supervisors and Grand Jury  
County of Butte  
Oroville, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Butte, 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 December 27, 2010. 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 Butte's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's 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 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 a certain deficiency in internal control over financial report that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in

Board of Supervisors and Grand Jury  
County of Butte

the accompanying schedule of findings and questioned costs as items 10-FS-1 and 10-FS-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Butte's 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County of Butte in a separate letter dated December 27, 2010.

This report is intended solely for the information and use of management, the Board of Supervisors, and 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.

*Gallina LLP*

Roseville, California  
December 27, 2010



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

To the Board of Supervisors and Grand Jury  
County of Butte  
Oroville, California

Compliance

We have audited the compliance of the County of Butte (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 the County's major federal programs for the year ended June 30, 2010. The County of Butte'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 of Butte's management. Our responsibility is to express an opinion on the County of Butte'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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 of Butte'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 on the County of Butte's compliance with those requirements.

As described in item 10-SA-1, in the accompanying schedule of findings and questioned costs, the County of Butte did not comply with requirements regarding eligibility that are applicable to the Medical Assistance Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

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County of Butte

In our opinion, except for the noncompliance described in the preceding paragraph, the County of Butte complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other 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 10-SA-2.

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 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.

*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 10-SA-1 and 10-SA-2 to be material weaknesses.

The County of Butte's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County of Butte's responses and, accordingly, we express no opinion on the responses.

Board of Supervisors and Grand Jury  
County of Butte

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, and 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 December 27, 2011. Our audit was performed for the purpose of forming 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Supervisors, 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.

*Gallina LLP*

Roseville, California  
December 27, 2010, as to the portion of this  
report regarding the Schedule of  
Expenditures of Federal Awards; and  
April 15, 2011, as to all other portions of  
this report

**COUNTY OF BUTTE**

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<b><u>U.S. Department of Agriculture</u></b>			
Direct Via U.S. Forestry Service:			
Lassen and Plumas Partnership	10.664	--	\$ 18,000
Marijuana Eradication	10.664	--	40,000
<b>Subtotal Direct</b>			<b><u>58,000</u></b>
Passed through State Department of Social Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561 *	--	2,629,534
ISAWS Migration	10.561 *	--	49,415
<b>Subtotal State Department of Social Services</b>			<b><u>2,678,949</u></b>
Passed through State Department of Education:			
ARRA - National School Lunch Program	10.555	--	81,046
<b>Subtotal State Department of Education</b>			<b><u>81,046</u></b>
Passed through State Department of Public Health:			
Special Supplemental Nutrition Program for Women, Infants, and Children - Vouchers	10.557	--	4,683,910
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	--	1,355,807
<b>Subtotal State Department of Public Health</b>			<b><u>6,039,717</u></b>
Passed through State Controller's Office:			
Schools and Roads – Grants to States	10.665	--	299,723
<b>Subtotal State Controller's Office</b>			<b><u>299,723</u></b>
<b>Total U.S. Department of Agriculture</b>			<b><u>\$ 9,157,435</u></b>
<b><u>U.S. Department of Commerce, National Telecommunications and Information Agency</u></b>			
Passed through the State Department of Homeland Security:			
Public Safety Interoperable Communications Grant Program (PSIC)	11.555	--	293,000
<b>Total U.S. Department of Commerce, National Telecommunications and Information Agency</b>			<b><u>\$ 293,000</u></b>

\* Major Program

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Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Passed through the State Department of Housing and Community Development:			
Community Development Block Grant/State's Program	14.228	05-STBG-1621	\$ 649,762
Community Development Block Grant/State's Program	14.228	06-EDBG-2769	97,916
Community Development Block Grant/State's Program	14.228	08-PTAG-5358	67,999
Community Development Block Grant/State's Program	14.228	08-EDEF-5887	112,564
Community Development Block Grant/State's Program - Loans	14.228	--	<u>1,771,770</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>\$ 2,700,011</u></b>
<b><u>U.S. Department of the Interior</u></b>			
Direct Program:			
Fish and Wildlife Management Assistance	15.608	--	<u>24,611</u>
<b>Subtotal Direct</b>			<b><u>24,611</u></b>
Passed through State Controller's Office:			
Payments in Lieu of Taxes - BLM Entitlement	15.226	--	<u>50,196</u>
<b>Subtotal State Controller's Office</b>			<b><u>50,196</u></b>
<b>Total U.S. Department of the Interior</b>			<b><u>\$ 74,807</u></b>
<b><u>U.S. Department of Justice</u></b>			
Direct Programs:			
Sheriff - Special Enforcement	16.000	--	7,794
Supervised Visitation, Safe Havens for Children	16.527	--	45,000
DOJ Single Jurisdiction Drug Court (BJA)	16.585	--	781
Violence Against Women Formula Grants	16.588	VAWA VP 09010040	171,990
ARRA - Victim/Witness Assistance Recovery Act	16.588	RV09010040	9,135
State Criminal Alien Assistance Program (SCAAP)	16.606	--	90,836
Edward Byrne Memorial Justice Assistance	16.738	--	9,577
ARRA - BH - ADS - CAL EMA (JAG)	16.804	--	2,805
ARRA - CAL EMA EBPSP SEED	16.804	--	<u>99,602</u>
<b>Subtotal Direct</b>			<b><u>437,520</u></b>

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Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/Expenditures</u>
<b>U.S. Department of Justice</b> (continued)			
Passed through State Emergency Management Agency:			
Crime Victim Assistance - Victim Witness Protection	16.575	VW09280040	\$ 87,297
Edward Byrne Memorial Justice Assistance (JAG II - Passed through City of Chico)	16.738	--	21,024
Anti-Drug Abuse (ADA) Enforcement Program	16.738	DC09120040	241,429
ARRA - VOCA Stimulus Victim/Witness Assistance	16.801	VS09010040	17,973
<b>Subtotal State Emergency Management Agency</b>			<b>367,723</b>
Passed through State Department of Corrections & Rehabilitation:			
Juvenile Accountability Incentive Block Grant	16.523	CSA 106-09	12,650
ARRA - I/F DA JAG I Drug Court - (Passed through City of Chico)	16.804	--	60,697
ARRA - I/F DA JAG I Drug Court - (Passed through City of Chico)	16.804	--	17,000
ARRA - CAL EMA BINTF OT	16.804	--	34,203
<b>Subtotal State Department of Corrections and Rehabilitation</b>			<b>124,550</b>
<b>Total U.S. Department of Justice</b>			<b>\$ 929,793</b>
<b>U.S. Department of Transportation</b>			
Passed through State Department of Transportation:			
Highway Bridge Program	20.205	* STPLZ-5912(019)	76,820
Highway Bridge Program	20.205	* --	1,153
Highway Bridge Program	20.205	* STPLF-5912(014)	3,523,418
Highway Bridge Program	20.205	* BRLS-5912(060)	73,821
Highway Bridge Program	20.205	* BRLO-5912(068)	23,923
Highway Bridge Program	20.205	* SPOA-5912(074)	6,522
Highway Bridge Program	20.205	* SPOA-5912(086)	30,216
ARRA - Highway Planning and Construction	20.205	* ESPL-5912(082)	582,514
ARRA - Highway Planning and Construction	20.205	* ESPL-5912(083)	697,486
<b>Subtotal State Department of Transportation</b>			<b>5,015,873</b>

\* Major Program

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Schedule of Expenditures of Federal Awards  
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<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/Expenditures</u>
<b><u>U.S. Department of Transportation</u></b> (continued)			
Passed through State Office of Traffic Safety:			
State and Community Highway Safety	20.600	--	\$ 89,489
High Intensity DUI Enforcement	20.600	AL0962 (Probation)	164,285
<b>Subtotal State Office of Traffic Safety</b>			<b><u>253,774</u></b>
<b>Total U.S. Department of Transportation</b>			<b><u>\$ 5,269,647</u></b>
<b><u>U.S. Department of Museum &amp; Library Services</u></b>			
Passed through California State Library:			
Library Services and Technology Act	45.310	--	<u>20,000</u>
<b>Total Department of Museum &amp; Library Services</b>			<b><u>\$ 20,000</u></b>
<b><u>U.S. Department of Education</u></b>			
Passed through State Department of Alcohol and Drug Abuse Programs:			
Drug-Free Schools and Communities – National Programs	84.186	--	<u>184,186</u>
<b>Total U.S. Department of Education</b>			<b><u>\$ 184,186</u></b>
<b><u>U.S. Election Assistance Commission</u></b>			
Passed through Secretary of State:			
Help America Vote Act	90.401	--	<u>41,906</u>
<b>Total U.S. Election Assistance Commission</b>			<b><u>\$ 41,906</u></b>
<b><u>U.S. Department of Health and Human Services</u></b>			
Passed through State Department of Social Services:			
Preserving Safe and Stable Families	93.556	--	699,013

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Schedule of Expenditures of Federal Awards  
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<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<b>U.S. Department of Health and Human Services</b> (continued)			
Passed through State Department of Social Services (continued):			
Temporary Assistance for Needy Families:			
Temporary Assistance for Needy Families -			
CalWorks	93.558 *	--	\$ 26,845,587
ISAWS Migration - Fed	93.558 *	--	102,631
Fed - EBT Conversion Project	93.558 *	--	3,865
Foster Care – Title IV-E - Child Welfare Services	93.558 *	--	479,714
Subtotal CFDA 93.558			<u>27,431,797</u>
Refugee and Entrant Assistance -			
State-Administered Programs	93.566	--	<u>978</u>
Foster Care – Title IV-E - Child Welfare Services	93.645	--	<u>233,273</u>
Foster Care – Title IV-E:			
Foster Care – Title IV-E - Probation Case			
Management	93.658	--	589,908
Foster Care – Title IV-E - Probation Preplacement	93.658	--	544,619
Foster Care – Title IV-E - Probation - Eligibility			
Determination	93.658	--	55,652
Foster Care – Title IV-E - Probation - Training	93.658	--	42,965
Foster Care – Title IV-E - Probation Group Home/			
Monthly Visits	93.658	--	44,038
Foster Care – Title IV-E - Foster Care	93.658	--	131,814
Foster Care – Title IV-E - Child Welfare Services	93.658	--	4,087,578
Foster Care – Title IV-E - Foster Care Licensing	93.658	--	37,187
Foster Care - AB 2129	93.658	--	9,166
Foster Care - Options for Recovery	93.658	--	175,801
Foster Care - Monthly Visited Group Homes	93.658	--	16,453
Foster Care - Kinship/Emergency	93.658	--	11,248
Foster Care – Title IV-E - Foster Care SB 163	93.658	--	36,402
Foster Care – Title IV-E - Foster Care Assistance (42)	93.658	--	3,221,910
CWS IV-E	93.658	--	370,537
ARRA - Foster Care - Title IV-E - Foster Care			
Assistance (42)	93.658	--	220,218
Foster Care – Title IV-E - Foster Care EA (5K)	93.658	--	568,330
Subtotal CFDA 93.658			<u>10,163,826</u>

\* Major Program

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Schedule of Expenditures of Federal Awards  
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<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<b>U.S. Department of Health and Human Services</b> (continued)			
Passed through State Department of Social Services (continued):			
Adoption Assistance Program:			
Adoption Assistance Program - Adoptions	93.659 *	--	\$ 3,195,876
Adoption Assistance Program - Admin	93.659 *	--	73,897
Adoption Assistance Program - Adoptions - Co.	93.659 *	--	10,121
ARRA - Adoption Assistance Program - Assistance	93.659 *	--	373,772
Subtotal CFDA 93.659			<u>3,653,666</u>
Social Services Block Grants:			
In Home Supportive Services (IHSS) - PSCP - Contracts	93.667	--	\$ 941,772
In Home Supportive Services (IHSS) - PSCP - Individual Provider	93.667	--	1,747,522
ARRA - In Home Supportive Services (IHSS) - PSCP - Contracts	93.667	--	139,720
ARRA - In Home Supportive Services (IHSS) - PSCP	93.667	--	152,597
In Home Supportive Services (IHSS) - PSCP - Individual Provider	93.667	--	15,549,958
Foster Care – Title IV-E - Child Welfare Services	93.667	--	718,584
CalWorks Stage 1 Admin Title XX	93.667	--	449,349
Subtotal CFDA 93.667			<u>19,699,502</u>
Independent Living	93.674	--	197,413
ARRA - TANF ECF Subsidized Employment	93.714 *	--	1,943,590
Medical Assistance Program (Social Services Admin)	93.778 *	--	4,295,310
Subtotal			<u>6,436,313</u>
<b>Subtotal State Department of Social Services</b>			<b><u>68,318,368</u></b>
Passed through the State Department of Child Support Services:			
Child Support Enforcement	93.563	--	3,974,968
ARRA - Child Support Enforcement	93.563	--	992,472
<b>Subtotal State Department of Child Support Services</b>			<b><u>4,967,440</u></b>
Passed through the State Department of Public Health:			
CDC - Bioterrorism & Pandemic Flu	93.069	--	247,854
CDC - PHER H1N1	93.069	--	426,534
Family Planning Services	93.217	--	131,064

\* Major Program

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Schedule of Expenditures of Federal Awards  
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<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<b>U.S. Department of Health and Human Services (continued)</b>			
Passed through the State Department of Public Health (continued):			
Immunization Grants	93.268	--	\$ 264,086
Drug-Free Communities Support Programs Grants (B)	93.276	--	117,776
CSBG Welfare-OCAP/ CBFPR GR	93.569	--	26,759
Medical Assistance Program (MCAH) - Title XIX	93.778 *	--	22,087
Medical Assistance Program (LEAD) - Title XIX	93.778 *	--	39,514
CDC Aids Surveillance	93.944	--	39,547
Maternal and Child Health Services (MCAH) - Title V	93.994	--	86,815
<b>Subtotal State Department of Public Health</b>			<b><u>1,402,036</u></b>
Passed through the State Department of Health Care Services:			
CCS ADMIN - Title XXI	93.767	--	65,804
Medical Assistance Program (MH-Medi-Cal Admin)	93.778 *	--	1,891,227
Medical Assistance Program (CHDP) - Title XIX	93.778 *	--	241,410
Medical Assistance Program (HCPCFC)-Title XIX	93.778 *	--	137,782
Medical Assistance Program (CCS)-Title XIX	93.778 *	--	416,502
AD - FED Share Drug Medi-Cal	93.778 *	--	103,916
MH - FED Share Medi-Cal (Short-Doyle Medi-Cal)	93.778 *	--	12,718,365
HRSA National Bioterrorism Hospital Preparedness	93.889	--	295,642
HRSA Aids Early Intervention Program	93.917	--	256,505
<b>Subtotal State Department of Health Care Services</b>			<b><u>16,127,153</u></b>
Passed through State Department of Mental Health:			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	--	100,162
Substance Abuse and Mental Health Services Administration	93.243	--	1,000
Runaway and Homeless Youth (RHYA)	93.623	--	147,803
Substance Abuse and Mental Health Services Administration (SAMHSA)	93.958	--	2,449,042
<b>Subtotal State Department of Mental Health</b>			<b><u>2,698,007</u></b>

\* Major Program

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Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<b><u>U.S. Department of Health and Human Services</u></b> (continued)			
Passed through State Department of Alcohol and Drug Programs:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	--	\$ 685,000
Block Grants for Prevention and Treatment of Substance Abuse - Friday Night Live (FNL)	93.959	--	14,250
Block Grants for Prevention and Treatment of Substance Abuse - Club Live (CL)	93.959	--	3,000
Block Grants for Prevention and Treatment of Substance Abuse Previous Set-Aside	93.959	--	326,921
Block Grants for Prevention and Treatment of Substance Abuse HIV Set-Aside	93.959	--	15,908
Block Grants for Prevention and Treatment of Substance Abuse Perinatal Set-Aside	93.959	--	675,000
Occupational Health and Surveillance Fatality Assessment and Control Evaluation	93.959	--	20,657
Block Grants for Prevention and Treatment of Substance Abuse Drug Testing	93.959	--	54,824
<b>Subtotal State Department of Alcohol and Drug Programs</b>			<b><u>1,795,560</u></b>
<b>Total U.S. Department of Health and Human Services</b>			<b><u>\$ 95,308,564</u></b>
<b><u>U.S. Social Security Administration</u></b>			
Direct Program:			
Social Security Reporting Program	96.002	--	41,000
<b>Total U.S. Social Security Administration</b>			<b><u>\$ 41,000</u></b>
<b><u>U.S. Department of Homeland Security</u></b>			
Passed through State Office of Homeland Security:			
State Homeland Security Program (SHSP) (2007)	97.073	--	\$ 6,201
State Homeland Security Program (SHSP) (2008)	97.073	--	200,677
State Homeland Security Program (SHSP) (2009)	97.073	--	147,236
<b>Subtotal State Department of Homeland Security</b>			<b><u>354,114</u></b>

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Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<b>U.S. Department of Homeland Security</b> (continued)			
Passed through State Emergency Management Agency:			
Emergency Management Performance Grants	97.042	--	292,558
OES-FY08 Interoperable Emergency Communications	97.055	#2008-IO-T8-0015	369,933
OES-FY09 Interoperable Emergency Communications	97.055	#2009-IO-T9-0015	50,625
<b>Subtotal State Emergency Management Agency</b>			<b><u>713,116</u></b>
<b>Total U.S. Department of Homeland Security</b>			<b><u>\$ 1,067,230</u></b>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 115,087,579</u></b>

# COUNTY OF BUTTE

## Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2010

Note 1: **Reporting Entity**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the County of Butte. The County of Butte's reporting entity is defined in Note 1 to the County's basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

Note 2: **Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is prepared on a modified accrual basis. 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*.

Note 3: **Relationship to 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. Federal award revenues are reported principally in the County's financial statements as intergovernmental revenues in the General and Special Revenue funds.

Note 4: **Subrecipients**

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the County of Butte provided federal awards to subrecipients as follows:

<u>Federal CFDA #</u>	<u>Program</u>	<u>Amount</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 25,600
14.228	Community Development Block Grant	355,979
93.917	HIV Care Program	<u>39,256</u>
	Total	<u>\$ 420,835</u>

**COUNTY OF BUTTE**

Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

Note 5: **Loans with Continuing Compliance Requirement**

Outstanding federally-funded program loans, with a continuing compliance requirement, carried balances as of June 30, 2010 as follows:

Federal CFDA#	Program Title	Amount Outstanding	
		July 1, 2009	June 30, 2010
14.228	Community Development Block	\$ 1,707,859	\$ 1,771,770

Note 6: **Program Clusters**

Federal programs, which must be audited together as a program cluster, include the following:

Federal CFDA #	Program Title	Federal Expenditures
<u>Temporary Assistance for Needy Families (TANF) Cluster:</u>		
93.558	Temporary Assistance for Needy Families (TANF)	\$ 27,431,797
93.714	ARRA – TANF ECF Subsidized Employment	<u>1,943,590</u>
	Total	<u>\$ 29,375,387</u>

Note 7: **Pass-Through Entities' Identifying Number**

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 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.

**COUNTY OF BUTTE**

Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

Note 8: **Total Federal Awards Expended by CFDA Number**

When there is more than one program under a single CFDA number, the Schedule of Expenditures of Federal Awards presents totals of all programs under the one CFDA number. Occasionally, however, this total may not be conveniently displayed because all programs under one CFDA number are not contiguous. When this occurs, this total is not shown in the Schedule, but instead is provided below:

<u>CFDA No.</u>	<u>Total Federal Expenditures</u>
16.588	\$ 181,125
16.738	272,030
16.804	214,307
93.069	674,388
93.778	19,866,113
97.055	420,558

## COUNTY OF BUTTE

### Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

#### Section 1

##### Financial Statements

##### Summary of Auditor's Results

- |  |               |
|--|---------------|
| 1. Type of auditor's report issued:  | Unqualified   |
| 2. Internal controls over financial reporting:                                 |               |
| a. Material weaknesses identified?   | Yes           |
| b. Significant deficiency identified not considered to be material weaknesses? | None Reported |
| 3. Noncompliance material to financial statements noted?                       | No            |

##### Federal Awards

- |   |             |
|---|-------------|
| 1. Internal control over major programs:  |             |
| a. Material weaknesses identified?  | Yes         |
| b. Significant deficiency identified not considered to be material weaknesses?  | No          |
| 2. Type of auditor's report issued on compliance for major programs:  |             |
| Medical Assistance program  | Qualified   |
| All Other Major Programs  | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a)? | Yes         |

4. Identification of major programs:

##### CFDA Number

##### Name of Federal Program

10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance Program
20.205	Highway Planning and Construction
93.558	Temporary Assistance for Needy Families
93.659	Adoptions Assistance Program
93.714	ARRA – TANF ECF Subsidized Employment
93.778	Medical Assistance Program

**COUNTY OF BUTTE**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

**Section 1** (continued)

- |   |              |
|---|--------------|
| 5. Dollar Threshold used to distinguish between Type A and Type B programs?       | \$ 3,000,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | No           |

**Section 2**

Financial Statement Findings

Infrastructure Additions – Bridges	Finding 10-FS-1
SEFA Reporting	Finding 10-FS-2

**Section 3**

Federal Award Findings and Questioned Costs

CFDA 93.778	Finding 10-SA-1
CFDA 93.558 and 93.714	Finding 10-SA-2

**COUNTY OF BUTTE**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

Finding/Program	Findings/Noncompliance
Finding 10-FS-1	<p data-bbox="518 394 1089 464"><i>Capital Assets – Infrastructure (Bridges)</i> <i>Reporting Requirement: Material Weakness</i></p> <p data-bbox="518 506 618 539"><u>Criteria</u></p> <p data-bbox="518 577 1414 646">Capital construction costs are required to be tracked and capitalized in the year they are incurred.</p> <p data-bbox="518 688 647 722"><u>Condition</u></p> <p data-bbox="518 760 1435 829">Certain large infrastructures are capitalized in the year completed rather than tracking the annual amounts in a construction in progress account.</p> <p data-bbox="518 871 599 905"><u>Cause</u></p> <p data-bbox="518 942 1455 1087">There is a lack of training regarding when an asset should be capitalized at the departmental level where the information stems from. Additionally, there appears to be no process at year-end to inquire with departments about such projects.</p> <p data-bbox="518 1129 841 1163"><u>Effect or Potential Effect</u></p> <p data-bbox="518 1201 1455 1379">A bridge project spanning several fiscal years was completed and capitalized in the current year causing expenditures at the government-wide level to be understated by \$5.2 million. Because the project was not tracked from the beginning, we noted an additional \$1.9 million of assets that were not recorded by the County.</p> <p data-bbox="518 1421 758 1455"><u>Recommendations</u></p> <p data-bbox="518 1493 1455 1707">We recommend that the County make additional efforts to train departments what costs need to be capitalized and tracked, and in which period those costs need to be capitalized. We also recommend that the County implement a year-end process to inquire with departments regarding projects that may have been worked on or completed in the current year.</p> <p data-bbox="518 1749 841 1782"><u>Management’s Response</u></p> <p data-bbox="518 1820 1455 1885">The County agrees with the recommendation. Ongoing departmental training and oversight of processes have been put into place, which</p>

## COUNTY OF BUTTE

### Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 10-FS-1 (continued)	<p><u>Management's Response</u> (continued) include working with departments to identify which costs need to be capitalized and how to properly track those projects. Additionally, a year-end procedure will be implemented by contacting departments to identify which projects are in progress or completed at fiscal year-end. This will provide proper reporting of Capital Projects and Construction in Progress in financial reports.</p>
Finding 10-FS-2	<p><i>SEFA Preparation</i> <i>Reporting Requirement: Material Weakness</i></p> <p><u>Criteria</u></p> <p>OMB Circular A-133 § 310(b) provides that auditees undergoing a federal single audit prepare a Schedule of Expenditures of Federal Awards (SEFA) listing individual programs by federal agency and Catalog of Federal Domestic Assistance (CFDA) number.</p> <p>The County must have proper internal controls over financial reporting in place. Good internal controls and Circular A-133 require the County to do a reconciliation between the expenditures reported on the general ledger and the federal expenditures reported on the SEFA.</p> <p><u>Condition</u></p> <p>During our testing of the amounts reported on the SEFA and related reconciliations we found that the following program overstated the federal expenditures originally reported on the SEFA.</p> <p>93.558 – Temporary Assistance for Needy Families      \$ 5,512,468</p> <p><u>Cause</u></p> <p>Temporary Assistance for Needy Families (TANF) was overstated due to the County reporting 100% of the TANF assistance payments as federal. However, per an information notice from the California Department of Social Services the federal percentage to use for TANF assistance payments during fiscal year 2009-10 is 57.4%.</p>

**COUNTY OF BUTTE**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 10-FS-2 (continued)	<p><u>Effect of Condition</u></p> <p>Reporting incorrect amounts on the SEFA can result in grantors requiring the SEFA to be reissued. This can also cause the auditor to incorrectly determine major programs for the year which may result in additional programs being audited and additional audit fees.</p> <p><u>Recommendation</u></p> <p>We recommend that all County personnel involved in the SEFA reporting process carefully review Section 205 – Basis for determining Federal awards expended in OMB A-133 prior to reporting federal expenditures for each year. We also recommend that grant agreements and other letters from grantors are reviewed to determine what percent of allowable costs are considered federal for each grant or program.</p> <p><u>Management’s Response</u></p> <p><i>93.558 - Temporary Assistance for Needy Families</i></p> <p>We concur with this recommendation. The amount which was shown on the SEFA report was taken directly from the State report for assistance claims. The State report combines both Federal and State amounts under the Federal Funds category. In fact, only 57.4% of these monies are actually Federal. This error was brought to our attention during the year’s audit.</p> <p>To ensure that the correct percentage of expenditures is properly reported in the SEFA, a letter from the grantor, communicating those percentages, will be required documentation in preparation of the SEFA report. Request will be made to the State Department of Social Services to have copies of the report sent directly to the Auditor-Controller’s Office and Department of Employment and Social Services.</p> <p>Additionally, review of OMB A-133, specifically Section 205, will occur prior to preparation of the 2010/2011 SEFA.</p>

**COUNTY OF BUTTE**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

Finding/Program	Findings/Noncompliance
Finding 10-SA-1  Medical Assistance Program CFDA 93.778	<i>Federal Grantor:</i> U.S. Department of Health and Human Services <i>Pass-Through Entity:</i> State Department of Social Services <i>Compliance Requirement:</i> Eligibility <i>Reporting Requirement:</i> Material Weakness; Material Non-Compliance at the Major Program level

Award No. n/a  
Year: 2009-10

Criteria and Condition

*IEVS:*

As required by Section 1137 of the Social Security Act, benefit information from the Income Eligibility and Verification System (IEVS) database must be requested and used when making eligibility determinations. The County must review and compare the information obtained from IEVS against information contained in the case record to determine whether it affects the individual's eligibility, level of assistance, benefits or services.

We found that IEVS had not been properly received, reviewed, and signed for 36 out of the 94 individuals in the cases that we tested. This is an error rate of 38.3%.

*Redeterminations:*

Every 12 months the County must redetermine the eligibility of Medi-Cal recipients with respect to circumstances that may change (e.g., income eligibility). The County must have procedures designed to ensure that recipients make timely and accurate reports of any changes in circumstances that may affect their eligibility. The County must promptly reassess eligibility when it receives information about changes in a recipient's circumstances that may affect his or her eligibility (42 CFR 435.916).

We found that annual redeterminations had not been performed on an annual basis for 11 out of the 40 cases that we tested. This is an error rate of 27.5%.

Questioned Costs

Despite the exceptions noted above, no client involved was shown to be ineligible for the benefits they received. Therefore, we do not question costs.

# COUNTY OF BUTTE

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 10-SA-1 CFDA 93.778 (continued)	<p><u>Perspective</u></p> <p>The County determined that their eligibility workers were short staffed and that they would not be able to keep up with the workload. There was an increase in workload due to the poor economy, qualifying more individuals and families for Medi-Cal. Another reason for the increase in workload was due to the preparation and change made from the SAWS eligibility system to C-IV.</p> <p>As a result of the increased workload and lack of adequate staffing to accommodate this workload, the Department prioritized the workload for staff giving higher priority to clients applying for benefits or whose benefits had been discontinued or interrupted. The annual redeterminations for continuing Medi-Cal recipients were given lower priority. All of the annual redetermination exceptions and the majority of the IEVS exceptions found in this review were a result of the prioritization of work by the Department.</p> <p><u>Effect of Condition</u></p> <p>The effect of the exceptions discussed above is that clients might receive benefits to which they are not entitled.</p> <p><u>Recommendation</u></p> <p>We recommend that the Department research the capabilities of the new C-IV system for solutions to performing more functions automatically and give the eligibility workers more time to perform annual redeterminations.</p> <p>We also recommend that the County review the budget to determine if more employees can be hired to determine eligibility.</p> <p><u>Corrective Action Plan</u></p> <p>The Department concurs with the findings and has implemented the following:</p> <ul style="list-style-type: none"><li>• Additional Eligibility Specialist positions have been filled and trained. A portion of the workload for these positions includes Medi-Cal redeterminations, which will help to reduce caseloads and allow time for staff to process redeterminations.</li></ul>

**COUNTY OF BUTTE**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 10-SA-1 CFDA 93.778 (continued)	<p><u>Corrective Action Plan</u> (continued)</p> <ul style="list-style-type: none"><li>• Extra-help staff are being hired and trained to assist with workload for staff on extended leaves of absences.</li><li>• The department authorizes the use of overtime to address the increased workloads associated with the rising caseloads.</li><li>• Medi-Cal annual redeterminations have been reprioritized and are included in the required workload for Medi-Cal ongoing workers.</li><li>• The new C-IV eligibility system will automatically send out annual redetermination packets to clients allowing workers to focus on the eligibility piece of the redetermination rather than mailing out forms, etc. to clients.</li><li>• The new C-IV eligibility system will automatically send a request for IEVS for new applications and new applicants being added to an existing case.</li><li>• The new C-IV eligibility system also has the capability to automatically request IEVS at redetermination. Ongoing Medical workers will be instructed to manually request IEVS at redetermination. NOTE: This functionality has been temporarily removed by the C-IV Project as a result of a conflict with the Department of Health Services (DHS) and the Social Security Administration (SSA). The department will utilize this functionality when it becomes available. The contract between DHS and SSA allows for a <b>maximum</b> of 50,000 recipient IEVS requests per day. With the automation of C-IV and 39 counties utilizing the system, the 50,000 maximum was being exceeded each day causing a contract issue between the 2 agencies resulting in the functionality being temporarily disabled.</li></ul>

COUNTY OF BUTTE

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

Finding/Program	Findings/Noncompliance
Finding 10-SA-1 CFDA 93.778 (continued)	<p><u>Corrective Action Plan</u> (continued)</p> <ul style="list-style-type: none"> <li>• Case reviews by Supervisors and Lead workers are part of Butte County DESS' standard business practice. Keeping with this practice, supervisors will establish a Quality Assurance process specific to Redeterminations for case reviews within their units by reviewing 1 in every 5 Redeterminations. The Director of Employment &amp; Social Services will be provided with quarterly updates on the findings of this internal review process.</li> <li>• A formalized Quality Control Review policy and process will be established and conducted by the DESS Senior Administrative Analyst for all Medi-Cal cases. These QC reviews will begin in March 2011.</li> <li>• The Department will continue to provide written refresher training to all staff via the Intranet and Breeze systems. The Department has also retooled and rewritten the induction training material to include C-IV system functionality and continues to update the training material with regulation and policy changes to insure accurate information is available to staff.</li> </ul>
	<p>This plan is in effect immediately. The contact person for this plan is the Program Manager and can be reached at 530-879-3530.</p>
Finding 10-SA-2  Temporary Assistance for Needy Families CFDA 93.558	<p><i>Federal Grantor: U.S. Department of Health and Human Services</i></p> <p><i>Pass-Through Entity: State Department of Social Services</i></p> <p><i>Compliance Requirement: Eligibility, Special Tests</i></p> <p><i>Reporting Requirement: Material Weakness; Material Non-Compliance at the Compliance Requirement level</i></p>
and  ARRA – TANF ECF Subsidized Employment CFDA 93.714	<p><u>Criteria and Condition</u></p> <p>As required by Section 1137 of the Social Security Act, benefit information from the Income Eligibility and Verification System (IEVS) database must be requested and used when making eligibility determinations. The County must review and compare the information obtained from IEVS against information contained in the case record to determine whether it affects the individual's eligibility, level of assistance, benefits or services.</p>
Award No. n/a Year: 2009-10	

# COUNTY OF BUTTE

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 10-SA-2 CFDA 93.558 and CFDA 93.714 (continued)	<p><u>Criteria and Condition</u> (continued)</p> <p>We noted that a current IEVS was not obtained for 9 of the 137 individuals tested which is an error rate of 6.6%.</p> <p><u>Questioned Costs</u></p> <p>We do not question costs as all recipients were deemed eligible.</p> <p><u>Perspective</u></p> <p>We found that in most cases, an IEVS had been requested but that due to the slow response time of the IEVS system and the large workload for eligibility workers; that the IEVS was not followed up on or reviewed. We also found that controls have not been designed to follow up on missing IEVS.</p> <p><u>Effect of Condition</u></p> <p>The effect of the exception above is that clients might receive benefits to which they are not entitled or more benefits than they are entitled to.</p> <p><u>Recommendation</u></p> <p>We recommend that a tracking system be implemented for all outstanding IEVS and that eligibility workers be required to address and clear up the cases that are that list on at least a monthly basis.</p> <p><u>Corrective Action Plan</u></p> <p>The Department agrees with the findings and has implemented the following:</p> <ul style="list-style-type: none"><li>• With the new C-IV eligibility system, applicant IEVS are automatically requested and uploaded to the client's case.</li><li>• Refresher training will be provided to staff and Supervisors with regards to the processing of applicant IEVS reports.</li></ul> <p>Supervisors and Lead Workers, when reviewing the intake case, will look for the processed IEVS in the C-IV system prior to authorizing benefits and rerouting the case from the worker's workload inventory.</p>

**COUNTY OF BUTTE**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 10-SA-2 CFDA 93.558 and CFDA 93.714 (continued)	<u>Corrective Action Plan</u> (continued)  This plan is in effect immediately. The contact person for this plan is the Program Manager and can be reached at 530-879-3528.

COUNTY OF BUTTE

Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2010

Audit Reference Number	Status of Prior Year Audit Findings
<b>Finding 09-SA-1</b>  Medical Assistance Program CFDA 93.778  Award No. n/a Year: 2008-09	<i>Federal Grantor: U.S. Department of Health and Human Services</i> <i>Pass-Through Entity: State Department of Social Services</i> <i>Compliance Requirement: Eligibility</i> <i>Reporting Requirement: Material Weakness; Material Non-Compliance at the major program level</i>

Recommendation

We recommend that the Department review the facts regarding the missing IEVS and annual redeterminations and determine whether procedures might be implemented to prevent recurrence of these errors. If further internal controls can be implemented, we recommend that they be implemented.

Status

Not corrected. See Finding 10-SA-1.

<b>Finding 09-SA-2</b>  Temporary Assistance for Needy Families CFDA 93.558  Award No. Year: 2008-2009	<i>Federal Grantor: U.S. Department of Housing and Urban Development</i> <i>Pass-Through Entity: State Department of Housing and Community Development</i> <i>Compliance Requirement: Reporting</i> <i>Reporting Requirement: Material Weakness</i>
--	--

Recommendation

We recommend that the Department review the facts regarding IEVS and birth certificates and determine whether procedures might be implemented to prevent recurrence of such errors. If further internal controls can be implemented, we recommend that they be implemented.

Status

Birth certificates – corrected.  
IEVS – not corrected. See Finding 10-SA-2.

**COUNTY OF BUTTE**  
**MANAGEMENT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**COUNTY OF BUTTE**

Management Report  
For the Year Ended June 30, 2010

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To the Board of Supervisors and Grand Jury  
County of Butte  
Oroville, California

In planning and performing our audit of the financial statements of the County of Butte for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the County's internal control to be a material weakness:

**Finding 10-FS-1: Material Weakness: Capital Assets – Infrastructure (Bridges)**

This finding is presented in the Schedule of Findings and Questioned Costs of the Single Audit Report.

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.

During our audit we also became aware of a few matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 27, 2010 on the financial statements of the County of Butte.

Butte County Board of Supervisors  
Oroville, California

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

*Gallina LLP*

Roseville, California  
December 27, 2010

# COUNTY OF BUTTE

## Management Report Required Communications For the Year Ended June 30, 2010

### **Our Responsibilities under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated June 7, 2010, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated June 7, 2010.

# COUNTY OF BUTTE

## Management Report Required Communications For the Year Ended June 30, 2010

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

#### *Significant Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2010. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

#### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences
- Capital asset lives and depreciation expense
- Liability for solid waste landfill closure and postclosure costs
- Liability for self-insurance claims

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

We encountered no significant difficulties in dealing with management in performing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

## COUNTY OF BUTTE

### Management Report Required Communications For the Year Ended June 30, 2010

The following material misstatements detected as a result of audit procedures were corrected by management:

- Reversal of prior year accrual of landfill receivables for \$0.2 million.
- Reclassification of \$0.8 million from equity to “transfers in” in the General Fund for the closed internal service funds.
- Reclassification of \$1.2 million of other revenue to intergovernmental revenue, fines and forfeitures, use of money and property, and charges for services.
- Reclassification of \$1.7 million for the Pension Obligation Bond debt service payments from “other revenue” to “transfers in” in the debt service fund and from payroll expense to “transfers out” in the funds that had incurred the expense.
- Reversal of prior year entry for accrued interest payable of \$0.2 million in the landfill fund.
- Reclassification of various amounts to balance interfund transfers and to agree to schedule.
- Reclassification of various amounts to balance interfund receivable and payable amounts and to agree to schedule.
- Posting a prior period adjustment for \$5.2 million for construction on the Aqua Frias Bridge that should have been capitalized in prior periods.

In addition, there were two immaterial uncorrected misstatements identified during the audit. The list below summarizes the uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Record construction in progress for governmental activities for a generator replacement project that was not complete at year-end. (\$0.3 million).
- Adjust amounts due from other governments for the Behavioral Health Fund for an understated estimate (\$0.1 million).

For additional information regarding the material weaknesses in the internal controls over financial reporting, refer to our report on the County’s internal control dated December 27, 2010.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

## **COUNTY OF BUTTE**

### **Management Report Required Communications For the Year Ended June 30, 2010**

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letters dated December 27, 2010.

#### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## COUNTY OF BUTTE

Management Report  
Current Year Comments  
For the Year Ended June 30, 2010

### USE OF MISCELLANEOUS REVENUE ACCOUNT

#### Criteria

The miscellaneous revenue account should be used to record revenues that fall outside of the other revenue categories, such as intergovernmental revenues and charges for services, and that are considered to be infrequent in nature.

#### Condition

We noted that the County's use of the miscellaneous revenue account includes various types of revenue, including intergovernmental revenues, revenue generated from charges for services, and interfund transfers.

#### Cause

Departments have initial responsibility for classifying cash receipts for financial reporting and may not have adequate knowledge or guidance to properly classify certain revenues. In the absence of other guidance, departments likely record revenues they are unsure of in the miscellaneous revenue account.

#### Effect of Condition

When revenues are improperly classified as miscellaneous revenues the true condition of the fund may be misleading. The level of detail for classifying transactions should be sufficiently categorized so as to be meaningful to management in making decisions.

#### Recommendation

We recommend that the County consider restricting the use of its miscellaneous revenue account for revenue sources that cannot be categorized under the existing revenue types, including charges for services, fines, intergovernmental revenues, and licenses and permits.

#### Management Response

We are reviewing all miscellaneous revenues and working with the departments to ensure the proper classification of the various types of revenue. Our intention is to limit the use of the miscellaneous revenue account to reflect revenue that is infrequent and immaterial in nature.

## COUNTY OF BUTTE

Management Report  
Current Year Comments  
For the Year Ended June 30, 2010

### REVERSAL OF PRIOR YEAR ACCRUALS

#### Criteria

During its year-end closing process, the County should establish and enforce policies and procedures to ensure that prior year-end accruals are properly reversed.

#### Condition

During the audit, we noted two instances, landfill accounts receivable and accrued interest payable, in which the prior year accruals had not been reversed. As a result, receivables, revenue, interest expense, and accrued interest were overstated by the prior year accrual amounts.

#### Cause

The County does not have procedures in place to ensure that all of the prior year-end accruals are properly reversed.

#### Effect of Condition

By not properly reversing the prior year accruals, the County is overstating the balances in these accounts in the current year.

#### Recommendation

We recommend the County review each significant accrual that was recorded in the prior year and record the necessary reversals as part of its closing process.

#### Management Response

The County does have a process in place to ensure all accruals are properly reversed. The two instances noted above were accrued due to prior period adjustments done as post closing items and not properly reversed. All accrual journals are submitted with the associated reversing journal. Post closing adjusting entries requiring reversal will be done going forward.

## COUNTY OF BUTTE

Management Report  
Current Year Comments  
For the Year Ended June 30, 2010

### **RECORDING OF INTERFUND RECEIVABLES AND PAYABLES**

#### Criteria

Reporting in accordance with Generally Accepted Accounting Principles (GAAP) requires that interfund receivables agree to interfund payables.

#### Condition

During the audit, we noted that client account 110002, due from other funds, did not agree to account 201002, due to other funds. We also noted that the client prepared footnote did not agree to the client's general ledger.

#### Cause

The County does not have procedures in place to ensure that interfund receivables agree to interfund payables and to ensure that the footnote agrees to the financial statements.

#### Effect of Condition

By not properly accounting for interfund transactions, interfund receivables and payables are misstated.

#### Recommendation

We recommend that all interfund transactions be carefully reviewed to ensure that when an amount is recorded to an interfund receivable account, an equal and offsetting amount is recorded to an interfund payable account. This will also make it easier to reconcile the interfund receivable/payable balances at year-end and facilitate the preparation of the required footnote disclosure.

#### Management Response

We are reviewing these transactions more closely, and working on training the individual departments to prepare these transactions correctly. The interfund transactions will be reviewed prior to year-end to facilitate reconciling the interfund receivable/payable. Steps were taken to ensure that due to transactions equal due from transactions prior to approval of those transactions. Additional steps will be taken to work with departments to educate them on this process.

**COUNTY OF BUTTE**

Management Report  
Current Year Comments  
For the Year Ended June 30, 2010

**RECORDING OF INTERFUND TRANSFERS**

Criteria

Reporting in accordance with Generally Accepted Accounting Principles (GAAP) requires that interfund transfers net to zero.

Condition

During the audit, we noted that “transfers in”, client account 481XXXX (excluding 4815010), did not agree to “transfers out”, client account 578XXXX. We also noted that the client prepared footnote did not agree to the client’s general ledger.

Cause

The County does not have procedures in place to ensure that interfund transfers net to zero and to ensure that the footnote agrees to the financial statements.

Effect of Condition

By not properly accounting for interfund transfers, these accounts are misstated.

Recommendation

We recommend that all transfers between funds be carefully reviewed to ensure that when an amount is recorded to a “transfer in” account, an equal and offsetting amount is recorded to a “transfer out” account. This will also make it easier to reconcile the transfers at year-end and facilitate the preparation of the required footnote disclosure.

Management Response

The County currently has a process in place to ensure that interfund transfers net to zero. A reconciliation is currently being done on a quarterly basis.

**COUNTY OF BUTTE**

Management Report  
Current Year Comments  
For the Year Ended June 30, 2010

**RECORDING ENTRIES DIRECTLY TO EQUITY**

Criteria

GAAP requires that the only changes to equity be current year net income and prior period adjustments.

Condition

During the audit, we identified several transactions that recorded amounts directly to equity rather than a prior period adjustment account or a transfer account.

Cause

The coding of entries directly to equity is not restricted.

Effect of Condition

By recording amounts directly to equity, current year beginning equity will not agree to prior year ending equity, as it should.

Recommendation

We recommend that all transactions be carefully reviewed to ensure that amounts are not posted directly to equity. When recording an amount to a fund balance reserve or designation, an equal and offsetting amount should be recorded to unreserved undesignated fund balance so that there is no change in total equity.

Management Response

All transactions are being reviewed, and any entries that record amounts directly to equity must be approved by the Auditor-Controller or the Assistant Auditor-Controller. A new equity account has been established to record and isolate any necessary prior year adjustments.

**COUNTY OF BUTTE**

Management Report  
Status of Prior Year Recommendations  
For the Year Ended June 30, 2010

<u>Recommendation</u>	<u>Status</u>
<b>ACCOUNTS RECEIVABLE CUT-OFF</b>  We recommend the County review each significant remittance advice/receipts that is received subsequent to year end to determine which period the revenue was earned.	Implemented
<b>RECORDING OF INTERFUND RECEIVABLES AND PAYABLES</b>  We recommend that all interfund transactions be carefully reviewed to ensure that when an amount is recorded to an interfund receivable account, an equal and offsetting amount is recorded to an interfund payable account.	Not Implemented
<b>RECORDING ENTRIES DIRECTLY TO EQUITY</b>  We recommend that all transactions be carefully reviewed to ensure that amounts are not posted directly to equity. When recording an amount to a fund balance reserve or designation, an equal and offsetting amount should be recorded to unreserved undesignated fund balance so that there is no change in total equity.	Not Implemented
<b>FAILURE TO RECORD PRIOR YEAR AUDIT ADJUSTMENTS</b>  We recommend that all audit adjustments are recorded on the client's system.	Implemented
<b>RECORDING OF LANDFILL RECEIVABLES</b>  We recommend that procedures be put in place to ensure the balances are obtained from the Landfill and updated on the County's financial statements.	Implemented