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I have audited the general purpose financial statements of the County of El Dorado for the year ended June 30, 2001, and have issued my report dated January 2, 2002. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under Generally Accepted Auditing Standards and OMB Circular A-133

As stated in my engagement letter dated June 5, 2001, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute assurance about whether the general purpose financial statements are free of material misstatement. Because an audit is designed to provide reasonable by not absolute assurance, and because I did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and may not be detected by me.

In planning and performing my audit, I considered the County of El Dorado's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I 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 my auditing procedures for the purpose of expressing my 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 of El Dorado's financial statements are free of material misstatement, I 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 my audit. Also, in accordance with OMB circular A-133, I examined, on a test basis, evidence about the County of El Dorado's compliance with types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County of El Dorado's compliance with those requirements. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination of the County of El Dorado's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of El Dorado are described in Note One (1) to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2001. I noted no transactions entered into by the County of El Dorado during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose 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 general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Managements' estimate of the Risk Management Fund's Claims liability for self insurance is based on actuarial assumptions. I evaluated the key factors and assumptions used to develop the Risk Management Fund's Claim liability for self insurance in determining that it is reasonable in relation to the financial statements taken as a whole.

Managements' estimate of the Liability for Closure and Postclosure Costs for the Union Mine Landfill is based on engineering studies. I evaluated the key factors and assumptions used to develop the Closure and Postclosure Costs of the Union Mine Landfill in determining that it is reasonable in relation to the financial statement taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in my judgement, may not have been detected except through my auditing procedures. The adjustments may include those proposed by me, but not recorded by the County of El Dorado that could potentially cause future financial statements to be materially misstated, even though I have concluded that such adjustments are not material to the current financial statements. I have proposed no audit adjustments that could, in my judgement, either individually or in the aggregate, have a significant effect on the County of El Dorado's financial reporting process.

Disagreements with Management

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

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 general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require that the consulting accountant check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditor

I 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 of El Dorado's auditor. However, this discussion occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Difficulties Encountered in Performing the Audit

The completion of my audit was delayed because the Schedule of Federal Awards was not complete in a timely manner. Seven months after the year-end, the amounts on the schedule were not finalized and could not be subjected to audit procedures. Extension of time to submit reports has been requested. This extension of time was also requested in the prior year. The financial reporting process does not have reasonable controls to provide for the absence of a crisis condition. The reason for the delays are not specified and appear to be a workload management issue.

Findings and Recommendations

In the following section I will discuss certain observations that I believe warrant attention and/or future monitoring by the County management.

TRANSIT OCCUPANCY TAX IMPOUND

Finding:

As mentioned in the previous audit, the County maintains a trust fund for excess collections on the "Transit Occupancy Tax". Presently, the trust fund has a balance in excess of \$700,000.

Effective January 1, 1993 (Ordinance Number 4262) the Board of Supervisors raised the transit occupancy tax (Chapter 3.28 of the County Ordinance Code) from eight percent (8%) to ten percent (10%). That increase in the transit occupancy tax was not approved by the voters and is interpreted to be a tax within the meaning of Proposition 62.

Under recommendation of County Counsel, the County has continued the ten percent (10%) rate. However, they have impounded the monies generated by that two percent (2%) increase until the issue is resolved by the courts or the legislature. The issue is to be resolved in the California Supreme Court in the case of Santa Clara County, etc. v. Guardino (1995) 11 cal. 4th 220 in which a ruling was issued which suggests strongly that in the future any new or increased general tax will be subject to majority voter approval. The Court specifically held that the two-thirds (2/3) voter approval requirement for special taxes contained in Proposition 62 is constitutional. On June 4, 2001 the California Supreme Court, in a unanimous opinion, ruled on the right to challenge taxes such as this in court. The ruling also stated that a three year statute of limitations for legal challenges begins to run not when a tax was passed but when the last illegal tax was collected.

Recommendation:

The Court said in a unanimous opinion written by Justice Kathryn Werdegar "Cities and Counties must eventually obey the state laws governing their taxing authority and cannot continue indefinitely to collect unauthorized taxes."

The County cannot indefinitely continue to collect the two percent (2%) increase in the transit occupancy tax. To continue, there should be consideration given to put the increase to the voters' approval. It should be emphasized that voters' approval must have a two-thirds (2/3) majority.

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding:

The audited report on the Schedule of Federal Expenditures is to be finalized and the Data Collection form is to be submitted with nine (9) months after the year end. For several programs involved, the reporting is required six (6) months after the year end.

The schedule of Federal Awards is not completed in a timely manner. Several months after the year end, the amounts on the schedule were not finalized to be submitted for audit procedures. Extension of time to submit reports had to be requested. This extension of time had to be requested in the prior years also. The financial reporting process does not have reasonable controls to provide for the absence of a crisis condition. The reasons for the delays are not specified and appear to be a workload management issue.

Recommendation:

It is recommended that the Auditor/Controller's Office review the workloads and provide cross training as necessary. Set the goal to have the report completed three (3) months earlier so that the forms can be filed in a timely manner.

JAIL COMMISSARY

Finding:

The County has entered into an agreement with a contractor to provide personnel, materials and services necessary to implement a commissary network program to facilitate the ordering of commissary supplies by inmates of both jail facilities. There has been little communication or training of County personnel on use of the system and there has been limited response by the Contractor to inquiries. This has resulted in a breakdown of controls on the funds received. Up until March 2001, all funds earned from sales to the inmates were transferred from the fiscal agents commissary account to the County trust account on a weekly basis. An accumulated amount of \$60,000 was finally transferred from the Placerville commissary account on September 19, 2001. An additional amount was transferred from the South Lake Tahoe Jail in mid October 2001.

Since its inception in March, the account with the Contractor has not been reconciled to an individual inmate listing. In mid October 2001, there had been some reconciliation with the Contractor's report.

Recommendation:

County commissary personnel need to review the system with the Contractor to determine what report the system has that would be useful. The County needs to reconcile to the Contractor reports at least monthly and timely transfer excess funds to the County trust account. The County also needs to generate from the Contractor's reports an individual listing of each inmate's balances, these amounts need to be reconciled to the balance in the checking account.

Communication needs to be improved between the County personnel and the Contractor. The Contractor needs to be more responsive to the County's inquiries and questions.

Finding:

Each one of the jails maintains and sells an inventory of cigarettes. There is no inventory control over this commodity. Also, the County purchases the cigarettes, which includes sales tax, but then marks up the selling price. The difference between the cost and the selling price is subject to sales tax. No sales tax returns have been filed and/or sales tax paid on these sales.

Recommendation:

The amounts involved are not material but there still is need for some type of control over the inventory and accountability.

Not filing a sales tax return on resale items is a violation of law, even if the amounts are small. Appropriate action needs to be taken to be in compliance.

COMMUNITY DEVELOPMENT BLOCK GRANT

Finding:

Loans funded through the Community Development Block Grant Program, for which the federal government is at risk, carried a balance of \$137,579 for Economic Development and \$444,162 for Housing Rehabilitation as of June 30, 2001. Of these amounts \$70,602 was in default and had been foreclosed on. The amounts have not been submitted to the Board of Supervisors for the appropriate authorization for disposition.

Recommendation:

The Community Services Department should go through the appropriate procedures to get approval of the Board of Supervisors to write off the amounts that are in default and uncollectable.

COUNTY WATER AGENCY

Finding:

The El Dorado County Water Agency has a note receivable from the El Dorado Irrigation District in the amount of \$3,378,360. Per the agreement and amendment dated February 6, 1996, the note is due and payable upon the event of construction financing for the Texas Hill Reservoir. It has been determined that the reservoir will not be constructed and the agreement has not stated a contingent method of payment.

Recommendation:

Since it appears that the Texas Hill Reservoir will not be constructed, the County needs to determine if this agreement is still valid. It should update all relevant facts and negotiate a method of repayment. Also, any amendment should include a reasonable interest charge.

CONTRACT COMPLIANCE-COUNTY SERVICE AREA #3

Finding:

As mentioned in the previous audit, Lake Tahoe Ambulance, Inc., "Provider "provides" Advanced Life Support Emergency Ambulance Service" through a contract dated November 30, 1992. Lake Tahoe Ambulance, Inc., is basically in compliance with the provision of the contract, except as outlined under Section VI, Item 6, "Equipment Maintenance".

"Under this Contract, PROVIDER shall be responsible for securing all maintenance of vehicles, in-board equipment and facilities used by the PROVIDER in performance of this work. PROVIDER shall establish record keeping system for the maintenance program including problem-reporting feedback loop, problem patterns analyses, vehicle and equipment maintenance histories and operating and repair cost analysis."

Lake Tahoe Ambulance, Inc. does not maintain an adequate record keeping system for the maintenance program. There was no supporting maintenance log to support routine maintenance. Maintenance appeared to be very minimal with only ten (10) invoices for any repairs or maintenance during the fiscal year. The last safety check documentation that was presented was done in July 2000.

Finding:

For the period tested May 20, 2001 through June 13, 2001 there were four open shifts. There was no documentation that was presented that could verify that these shifts were covered by administrative personnel.

Supporting time sheets before April 2001 were not made available for review. No documentation to support payroll charge was presented so auditor could not verify if open shifts were the exception. Payroll documentation was very limited.

Additional charges for overtime for the months of July and August 2001 could not be reviewed and verified for their accuracy since the providers could not produce them. Preliminary analysis does not support the additional charge of \$12,500 per month.

Finding:

Files for four employees were not available. The auditor could not verify current certification and accreditation. There was no documentation in any of the employee files to support current years continuing education.

UNFUNDED POST RETIREMENT HEALTH BENEFITS

Finding:

The County provides post retirement benefits to certain retirees. The present value of this County obligation is approximately \$20,600,000. No funds have been set aside to pay this benefit and no liability has been recorded to recognize this obligation.

Recommendation:

The County should fund and record expenditures for this obligation during the period in which each employee is working and earning their respective vested interest in the benefit. A plan to fund the obligation to employees that have earned their benefits during prior periods should be established.

AMBULANCE BILLING

Finding:

As mentioned in the previous audit, the policy in regards to collecting, documenting, adjusting and writing-off an uncollectible amount or account is not clearly defined. The County policy has been to not record these receivables. There are also variations to the present policy on what goes to the County Collections Department. This results in some confusion as to what goes to collection.

Recommendation:

The County needs to review its collections policy and procedures for ambulance billings and to make the appropriate updates regarding controls that actually reflect the operating intentions of the system.

Also, there appears to be no reconciliation of the amounts received as recorded in the reports produced by ambulance billing and the amounts recorded in the County revenue ledger. The collection amounts should be reconciled at least monthly.

ENCUMBRANCES

Finding:

The auditor reviewed contracts in excess of \$10,000 or 67.6% of all encumbrances for 2001. It was observed that there were contracts included in encumbrances that had expired as of June 30, 2001. One file could not be found by general services. It appears that the encumbrance listing has an error rate of approximately thirteen percent (13%). The department heads receive a monthly encumbrance status for their review and it is their responsibility to inform purchasing of any change in status.

Recommendation:

As mentioned in the previous audit, the department heads should review the monthly encumbrance listing and inform purchasing of any change in status. It appears that general services cannot rely on the departments to inform them of expired contracts or purchase orders and should institute some controls that would flag these events. This would allow purchasing to inquire of the department staff as to the status of each purchase order or contract.

FIXED ASSETS

Finding:

A physical inventory of general fixed asset was taken and reconciled to the inventory listing as of June 30, 2000. Assets having a historical cost of \$53,323 could not be located. Assets having a historical cost of \$268,984 were disposed of by the various Departments without Board of Supervisors' authority.

Recommendation:

The various departments involved subsequently submitted a corrective action plan to account for the assets for which they are responsible. The Department heads need to adhere to the established policy and procedures for disposal of surplus fixed assets.

FRANCHISE FEES

Finding:

The County collects certain fees under various franchise agreements. As part of the audit procedure, the auditor requested to review selected franchise agreements. Of the four agreements requested, only one of them could be found.

Recommendation:

It appears that a system is needed whereby agreements such as these are maintained in an index file for ready access. There is also indication that some of these agreements should be reviewed and updated.

TRUST FUND-SOCIAL SERVICES 41-550-305 HOMEMAKER CHORE

Finding:

There is a negative balance in the trust fund as of June 30, 2001 in the amount of \$259,670.16. Most of the negative balance was incurred before 1992. A reconciliation has kept the fund from incurring any additional differences.

Recommendation:

The balances in this trust fund were in the negative position before any reconciliations were done in 1992. The integrity of the fund has been maintained since then with annual reconciliations. Since the negative amounts were incurred before 1992, the probability of recapturing these funds would be very low. There should be a request of the Board of Supervisors to transfer funds to cover the deficit. Once the fund is brought current, the present reconciliation procedures should be maintained. Any disbursements in excess of the amounts in trust should be approved by a responsible official before amounts are released. The fund should not be allowed to go into a deficit in the future.

COLLECTION/RECORDING SYSTEM-PROBATION

Finding:

The present system used to record collection and maintain accounts receivables is not adequate. The system does not have the capability to send out monthly statements and is very cumbersome to operate. Collection at Juvenile Hall is separate and is very time consuming.

Recommendation:

A time-management study should be considered in order to determine the adequacy of the accounting staff and the accounts receivable system. Emphasis should be to simplify the collection process, especially the steps necessary to process the restitution payments. Also, the collections at Juvenile Hall should be linked with the Probation Department.

PLACERVILLE AIRPORT-RECEIPTS

Finding:

Payments received are recorded manually, using a pegboard system, which is very time consuming and could be subject to mathematical errors. All receivables are also maintained manually using a card system.

Recommendation:

The department needs to upgrade to a more computerized system to record receipts and maintain receivables. Management should ensure that there is adequate staff and that they are properly trained to implement any new system.

SHERIFF RECEIVABLE DOCUMENTATION

Finding:

As mentioned in the previous year the Sheriff's Department performs services for which it will bill. The invoices are prepared on a word processing program, but there are no formal follow-up procedures or receivable listings for accounts that have not paid. Even so, it was stated that they feel confident that they do not have a problem with any possible oversights. The analysis in place may keep the risks down, but is not sufficient. More than one fiscal technician handles and records receipts so deposit permits are in more than one location.

Recommendation:

The Department needs to develop policies and procedures to implement a more reliable system for billing and to maintain their accounts receivable. Having such an informal tracking system can result in errors. The Department should have a receivable collection system that can provide them information on collections and outstanding receivables. All deposit permits should be maintained at a central location.

EMPLOYEE TIME CARDS-INFORMATION SERVICES

Finding:

"Each employee is required to complete a time card, which must be signed for each pay cycle". During our tests, it was noted that a large percentage of the time cards were not signed by either the employee or their supervisor. Some, in fact, were not signed at all.

Recommendation:

Policy requires that employees complete a time card and that it must be signed for each pay cycle. The only exemption would be elected officials and certain appointed department heads. All time cards should be completed and signed by both the employee and their supervisor. These become a legal document and verify that the employee has been paid for the time documented and agreed to.

INVENTORY OF GAS-PLACERVILLE AIRPORT

Finding:

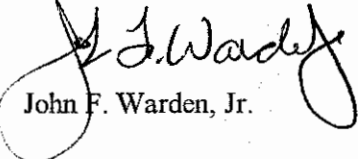
Inventory of gas at the Placerville Airport was extended out at retail prices instead of cost plus taxes and fees. The amount of the inventory overstatement was not material and an audit adjustment was deemed not necessary.

Recommendation:

Inventory of aviation gas should be costed out at cost plus taxes and fees, excluding the mark-up.

This information is intended solely for the use of the Board of Supervisors, Auditor-Controller and management of the County of El Dorado and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


John F. Warden, Jr.