



**AUDITOR-CONTROLLER**

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Auditor-Controller

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August 2, 2012

Presiding Judge Ricardo Cordova  
Superior Court – Stanislaus County  
PO Box 3488  
Modesto, CA. 95353

**SUBJECT: Auditor-Controller Response 2011-2012 Stanislaus County Civil Grand Jury Final Report**

This letter will serve as the Auditor-Controller's response to the Grand Jury Final Report for the 2011-2012 year.

We have included the Grand Jury findings and recommendations followed by our response.

**Special District Audit Requirement – Grand Jury Case number 12-28GJ**

Findings

F1: Monterey Park Community Service has not been audited since 1995.

The respondent agrees with the finding.

F2: The lack of money available to Monterey Park Community Service District and lack of proper record-keeping resulted in a failed attempt by the Stanislaus County Auditor-Controller to hire a firm to perform a forensic audit as recommended by the 2010-2011 SCCGJ report. An audit of Monterey Park would require the District borrow funds from Stanislaus County and be approved by the Board of Supervisors. Stanislaus County personnel would then have to complete the audit.

The respondent agrees with the finding.

F3: Westport Fire District is out of audit compliance for the fiscal years 2008/09 and 2009/10.

The respondent agrees with the finding.

F6: The East Stanislaus Resource Conservation audits have been completed, receiving a Qualified Opinion. However, as of March 2012, the audits had not been presented to the Board and the audits, as of April 2012, have not been received by the SCCGJ or the Stanislaus County Auditor-Controller.

The respondent agrees with the finding.

F7: During the course of follow up one entity requested information to extend the audit period from two years to five years.

The respondent agrees with the finding.

### Recommendations

R1: The Stanislaus County Auditor-Controller should place the issue with respect to an audit of the Monterey Park Community Service District on the agenda of the Stanislaus County Board of Supervisors.

Stanislaus County Auditor-Controller Response: As mentioned in Finding 2 attempts were made by the Stanislaus County Auditor-Controller's Office during Fiscal Year 2011-2012 to hire a public accounting firm to perform the financial audit of the Monterey Park Community Service District through the Request for Proposal (RFP) process. This process resulted in no firms participating in the RFP process. An alternative plan was developed to require the District borrow County funds after Board of Supervisor approval to pay for the performance of the audit by the Stanislaus County Auditor-Controller's Office. Due to the implementation of State legislation and limited resources in the Stanislaus County Auditor-Controller's Office the alternative plan was not completed during Fiscal Year 2011-2012. During Fiscal Year 2012-2013 the Stanislaus County Auditor-Controller will attempt to implement the alternative plan discussed above. The success of this attempt will be dependent on available resources.

During Fiscal Year 2011-2012 certain documents were obtained by the Auditor-Controller's Office in reference to the performance of the financial audit for the District. A copy of the last financial audit performed for the District was not available.

In addition as recommended the Stanislaus County Auditor-Controller will present to the Stanislaus County Board of Supervisors the issue of the Monterey Park Community Service Districts audit at the same time as Recommendation 8 is implemented.

- R2: Westport Fire District should submit a time-line for completing its audits to the SCCGJ and the Stanislaus County Auditor-Controller, with a progress update every 30 days until the audits are completed.

Stanislaus County Auditor-Controller Response: The recommendation has been implemented. The audit report for year ending June 30, 2009 is dated June 25, 2012 and the audit report for year ending June 30, 2010 is dated June 29, 2012. Both audit reports were received in the Stanislaus County Auditor-Controller's Office on July 18, 2012.

- R5: The East Stanislaus Resource Conservation should submit the completed, Board-approved audits to the SCCGJ and the Stanislaus County Auditor-Controller.

Stanislaus County Auditor-Controller Response: The audit reports of the East Stanislaus Resource Conservation District for the years ending June 30, 2008, 2009, 2010 and 2011 were completed and dated April 7, 2012. Copies of the audit reports were received by the Stanislaus County Auditor-Controller on June 13, 2012.

- R6: An audited financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. These Special Districts are responsible to their public. CGC Section 26909:

*A special district may, by unanimous request of the governing board of the special district, with unanimous approval of the board of supervisors, replace the annual special audit with a biennial audit covering a two-year period or, if the district's annual budget does not exceed an amount specified by the board of supervisor's an audit covering a five year period.*

A two-year audit cycle provides ample time for the submission and completion of this responsibility. No extensions of audit time frames should be entertained.

Stanislaus County Auditor-Controller Response: There was one special district that did request information regarding changing the timing of the audit period from a two year cycle to a five year cycle.

*Per Government Code Section 26909(b)(2) an audit covering a five year period, if the special district's annual revenues do not exceed an amount specified by the board of supervisors. The Stanislaus County Board of Supervisor's approved an agenda item on December 14, 1982 determining the annual revenue amount specified in Government Code Section 26909 to be \$100,000. If a special district meets the criteria listed in Government Code Section 26909(b) they are allowed to change their audit period to a five year period.*

- R8: For the benefit of public disclosure, the Stanislaus County Auditor-Controller should submit to the Stanislaus County Board of Supervisors an annual report on the audit compliance status of all Stanislaus County Special Districts. The report should include;
- The disclosure of any non-compliant Special District audits and all years for which the non-compliance status continues to exist.
  - The types of opinions that may be expressed per CGC Section 26909; Unqualified, Qualified, Adverse or Disclaimer of Opinion.
  - Make a recommendation to the Board of Supervisors as to the ability of the Special District to continue as an independent going concern.

Stanislaus County Auditor-Controller Response: The Stanislaus County Auditor-Controller's Office agrees with the recommendation provided by the Grand Jury to submit to the Stanislaus County Board of Supervisors an annual report on the audit compliance status of all Stanislaus County Special Districts.

The first two components of the report recommended by the Grand Jury are reasonable to include in the annual report. However, the third component of the recommendation to the Board of Supervisors will not be reasonable to include. Going concern recommendations are normally disclosed during the financial audit process when there is access to the financial records by the auditor. Without the Stanislaus County Auditor-Controller's Office performing the audit work itself it would be professionally difficult and potentially inaccurate to make these types of recommendations regarding going concern issues. As the Stanislaus County Auditor-Controller's Office has limited financial information regarding the special districts this type of recommendation should rely upon the results of the required financial audit. As an alternative if the Stanislaus County Auditor-Controller's Office becomes aware of a financial concern regarding a special district limited procedures could be performed by the office if resources are available.

The annual report to the Stanislaus County Board of Supervisors will begin regarding the status of the audit requirement for each special district as of year ending June 30, 2012.

Sincerely,



Lauren Klein, CPA  
Auditor-Controller

C:     Honorable William O'Brien, Supervisor – District 1  
          Honorable Vito Chiesa, Supervisor – District 2  
          Honorable Terry Withrow, Supervisor – District 3  
          Honorable Dick Monteith, Supervisor – District 4  
          Honorable Jim DeMartini, Supervisor – District 5  
          Monica Nino, Chief Executive Officer