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SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

SUBMITTAL DATE:
January 7, 2013

FROM: Auditor-Controller

SUBJECT: Fiscal Year 2011-12 Comprehensive Annual Financial Report (CAFR), Popular Annual Financial Report (Financial Highlights), Management Letter, and Report on Statement on Auditing Standards (SAS) 114 *The Auditors' Communication with those Charged with Governance.*

RECOMMENDED MOTION:
That the Board of Supervisors receive and file the attached Comprehensive Annual Financial Report, Financial Highlights, Management Letter, and Report on SAS 114 for the fiscal year ended June 30, 2012.

BACKGROUND:
The County's CAFR is hereby submitted in accordance with Section 25253 of the Government Code of the State of California.

(Continued)

Paul Angulo
Paul Angulo, CPA
County Auditor-Controller

FINANCIAL DATA	**Current F.Y. Total Cost:** -0-		**In Current Year Budget:**	No
	Current F.Y. Net County Cost: -0-		**Budget Adjustment:**	No
	Annual Net County Cost: -0-		**For Fiscal Year:**	

SOURCE OF FUNDS:

Positions To Be Deleted Per A-30 ☐

Requires 4/5 Vote ☐

C.E.O. RECOMMENDATION:

APPROVE

BY: Karen L. Johnson

County Executive Office Signature

Dep't Recomm.: ☒ Consent ☐ Policy

Per Exec. Ofc.: ☒ Consent ☐ Policy

Prev. Agn. Ref.: | **District:** ALL | **Agenda Number:**

2-6

The Financial Highlights provides a 25 page recap of the County's financial information in an easy-to-read format. The financial information contained in this publication is derived from the County's 219 pages CAFR for Fiscal Year 2011-12.

The Management Letter is issued in accordance with Statement on Auditing Standard (SAS) 112, *Communicating Internal Control Related Matters Identified in an Audit*. It establishes a requirement to our external auditors to communicate with those matters related to the County's internal control over financial reporting identified in an audit of financial statements. The attached Management Letter discloses those matters to the County's Board of Supervisors.

The Report on SAS 114 establishes a requirement for the external auditors to communicate with those charged with governance certain significant matters related to the audit. SAS 114 uses the term *those charged with governance* to refer to those with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the entity's financial reporting process. The attached Report on SAS 114 discloses those matters to the County's Board of Supervisors.

COUNTY OF RIVERSIDE, CALIFORNIA

MANAGEMENT LETTER

JUNE 30, 2012

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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BROWN ARMSTRONG
Certified Public Accountants

December 20, 2012

To the Honorable Board of Supervisors
County of Riverside
4080 Lemon Street
Riverside, California 92502

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Riverside (the County) as of and for the year ended June 30, 2012, 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 opinions 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 preceding 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 identified a certain 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 deficiency 2012-1 in the County's internal control to be a material weakness.

2012-1 WASTE MANAGEMENT DEPARTMENT

MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

While we performed our audit for the financial statements of the Waste Management Enterprise Fund, we detected reportable errors during our audit and proposed material adjusting journal entries to the closure/post-closure and remediation cost liabilities and the related expense/net assets accounts. In February 2012, the Waste Management Department (the Department) hired a Supervising Accountant who identified that closure/post-closure and remediation cost liabilities were distributed in both equity and liability accounts. In an attempt to consolidate closure/post-closure and remediation cost liabilities that in past years had been allocated to both equity and liability accounts, the Department reallocated these funds into equity accounts. Correcting entries were made during the financial review process to allocate these funds to liability accounts.

RECOMMENDATION:

We recommend that the County Waste Management Department and Auditor-Controller's Office (ACO) continue to record closure/post-closure and remediation cost liabilities to their appropriate accounts.

MANAGEMENT'S RESPONSE:

Management agrees with the recommendation.

PRIOR YEAR MANAGEMENT LETTER FINDINGS

2011-1 WASTE MANAGEMENT DEPARTMENT

MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

While we performed our audit for the financial statements of the Waste Management Enterprise Fund, we detected reportable errors during our audit and proposed material adjusting journal entries to closure liability and the related expense/net assets accounts. The cause of reportable errors is likely a result of the Department's cost saving reorganization plan that was implemented shortly after fiscal year-end. The Department's reorganization plan included elimination of the Department's Accounting Manager position in place of a lower salaried Supervising Accountant position.

RECOMMENDATION:

We recommend that the County Waste Management Department recruit a qualified accountant as soon as possible. Meanwhile, the County Waste Management Department can seek temporary help from an outside source or from the Auditor-Controller's Office.

MANAGEMENT'S RESPONSE:

Management agrees with the recommendation to recruit and hire a qualified accountant and initiated a recruitment to hire at the Supervising Accountant level in September 2011. The Department was provided with a candidate listing and conducted interviews in November 2011. From the initial referral list, no candidate was selected and a supplemental list was requested. The Department has scheduled interviews for candidates identified on the supplemental list to occur on January 12, 2012.

The Department requested and received assistance from the ACO's office throughout, and subsequent to, the audit.

Management agrees that material adjustments were necessary. The Department identified the need for and made an adjustment to correct the OASIS Asset Management module. Closure liability requirements are regulated by the California Department of Resources Recycling and Recovery (CalRecycle). The Department held several meetings with CalRecycle throughout fiscal year 2011 to ensure compliance with newly updated financial liability reporting requirements. Annual fluctuations are routine and it is standard practice to make adjustments after final audit review. Other adjustments were minor and fell within the norm of year-end adjustments.

CURRENT YEAR STATUS:

Fully implemented. Please see current year finding 2012-1.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the County of Riverside gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time. This report is intended solely for the information and use of the Board of Supervisors, management, and others within the County and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 20, 2012

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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BROWN ARMSTRONG
Certified Public Accountants

To the Honorable Board of Supervisors
County of Riverside, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Riverside, California, for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards,* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated March 26, 2012. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County of Riverside are described in Note 1 to the financial statements. We noted no transactions entered into by the County of Riverside during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimates affecting the financial statements were:

> Management's estimate used in establishing allowances for accounts receivable, estimating date of collection to comply with period of availability for certain revenues, establishing self insurance reserves, estimating closure and post closure care costs, establishing the other postemployment benefit obligation, depreciation, and valuations of certain infrastructure. We evaluated the key factors and assumptions used in developing these estimates and they appeared reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of Restatement of Beginning Fund Balances/Net Assets in Note 3 to the financial statements.
- The disclosure of Commitments and Contingencies in Note 20 to the financial statements.
- The disclosure of Subsequent Events in Note 21 to the financial statements.
- The disclosure of Successor Agency Trust for Assets of Former Redevelopment Agency in Note 22 to the financial statements.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing 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. In addition, misstatements detected as a result of audit procedures and corrected by management relating to the County's Waste Management Fund were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated December 20, 2012.

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 County of Riverside'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 of Riverside's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We identified a certain deficiency in internal control that we consider to be a material weakness in internal control over the financial reporting. The material weakness will be communicated to you in a separate communication letter and will be presented in the County of Riverside's fiscal year 2012 single audit report.

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This information is intended solely for the use of Board of Supervisors and management of the County of Riverside and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 20, 2012