

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

547



**SUBMITTAL DATE:**  
January 12, 2012

**FROM:** Auditor-Controller

**SUBJECT:** Fiscal Year 2010-11 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, 2011.

**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

<b>FINANCIAL DATA</b>	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:	

<b>SOURCE OF FUNDS:</b>	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

**C.E.O. RECOMMENDATION:**

APPROVE

BY: *Christopher M. Hans*

County Executive Office Signature Christopher M. Hans

- Policy
- Policy
- Consent
- Consent

Dep't Recomm.:  
Per Exec. Ofc.:

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

ATTACHMENTS FILED  
WITH THE CLERK OF THE BOARD

2.8

Board of Supervisors  
RE: Fiscal Year 2010-11 CAFR, Financial Highlights, Management Letter and  
Report on SAS 114  
January 12, 2012  
Page 2 of 2

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 216 page CAFR for Fiscal Year 2010-11.

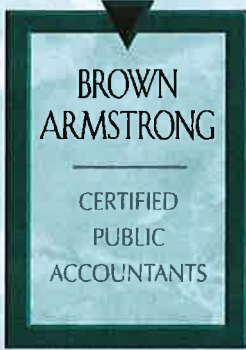
The Management Letter is issued in accordance with Statement on Auditing Standard (SAS) 112, *Communicating Internal Control Related Matters Identified in an Audit*. It establishes a requirement to our external auditors to communicate with those matters related to the County's internal control over financial 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, 2011**



BROWN ARMSTRONG  
Certified Public Accountants

December 28, 2011

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

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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 County of Riverside (the County) as of and for the year ended June 30, 2011, 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 certain deficiencies in internal control that we consider to be material weaknesses.

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:

**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 account. 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.



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Accounting Oversight Board and  
MEMBER of the American Institute of  
Certified Public Accountants

**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.

**PRIOR YEAR MANAGEMENT LETTER FINDINGS**

**CAPITAL ASSETS**

**CONTROL DEFICIENCY:**

While the County maintains formalized year-end procedures to ensure that County departments submit information for financial reporting purposes, the following was noted:

- Queries from the Asset Management (AM) module of PeopleSoft are exported and compiled on numerous nVision spreadsheets in order to summarize information for financial reporting purposes and to validate depreciation expense and accumulated depreciation values generated by the AM module.
- Discrepancies between certain departmental internal calculation of accumulated depreciation and the AM module's automated calculation were noted.

**RECOMMENDATION:**

We recommend that the County strengthen its year-end procedures for capital assets reporting.

- The County should examine the cost/benefit of establishing system generated capital assets reports that summarize data for the financial statements. Such reports would include the roll-forward of capital assets activity by department and/or fund, thereby, eliminating the need to compile this information in nVision spreadsheets.
- The Departments and Auditor-Controller's office should reconcile and correct accumulated depreciation variances prior to year-end.

**MANAGEMENT'S RESPONSE:**

The OASIS Team is working with the Auditor Controller's Office to identify issues associated with the County's new Asset Management roll-forward report. Once the issues are identified, the ACO will work with various County departments to make the necessary corrections so that the roll-forward report is functional.

**CURRENT YEAR STATUS:**

Implemented.

**DEPOSIT BASED FEE**

**CONTROL DEFICIENCY:**

While the County maintains formalized year-end procedures to ensure that general ledger balances are materially correct, it was noted during testing that the Deposit Based Fee Module is not adequately reconciled to actual receivables, deposits on hand, and refunds due and payable to customers.

**RECOMMENDATION:**

We recommend that the general ledger balances be reconciled against actual receivables, deposits on hand, and refunds due and payable to customers in the Deposit Based Fee Module.

**MANAGEMENT'S RESPONSE:**

Transportation and Land Management Agency (TLMA) and Oasis Team are working together to resolve this finding. Deposit Based Fee (DBF) is a custom, customer service oriented, People-Soft module that collects development cash deposits directly in a customer deposit liability account; hence there should be no current receivables posting. To ensure timely discovery and resolution of system issues with the DBF module, Oasis and TLMA are working to monitor processes and set traces on system generated postings. TLMA staff is monitoring general ledger accounts receivable balances before and after batch processing. The problem is intermittent and does not affect all records processed.

**CURRENT YEAR STATUS:**

Implemented.

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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**



Bakersfield, California  
December 28, 2011



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, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 April 26, 2011. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

*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. During the year ended June 30, 2011, the County of Riverside adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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:

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- The disclosure of Restatement of Beginning Fund Balances/Net Assets in Note 4 to the financial statements.
- The disclosure of Commitments and Contingencies in Note 21 to the financial statements.
- The disclosure of Subsequent Events 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, the misstatements detected as a result of audit procedures and corrected by management in the attached schedule 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 28, 2011.

*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*

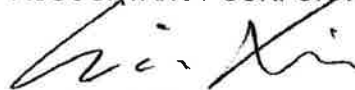
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County of Riverside's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses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

We identified certain deficiencies 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 2011 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



By: Eric H. Xin

Bakersfield, California  
December 28, 2011



Client: 70616 - County of Riverside  
 Engagement: 70616-003 - 6/30/11 Waste Management Department Audit (E Fund)  
 Period Ending: 6/30/2011  
 Trial Balance: TB - Annual Trial Balance - 2 Year  
 Workpaper: PSR-23-1 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>		<b>PSR-13</b>		
Client provided JE #1474849				
40200-112500	Accounts Receivable-Other		142,447.00	
40200-202200	Compensated Absence Pay		581,888.00	
40200-340100	Invsld in cap asts net of debt		4,593,829.00	
40200-380100	Unrestricted Net Assets		7,476.00	
40200-524820	Engineering Services		10,380.00	
40200-525340	Temporary Help Services		72.00	
40200-546400	Capital Assets-System		280,823.00	
40200-790040	Loss or Gain Sale Fixed Assets		125,287.00	
40260-781720	Salary Reimbursement		4,452,549.00	
40200-201200	Accounts Payable-Other			10,452.00
40200-285100	Accrued Compensation Payable			198,719.00
40200-380100	Unrestricted Net Assets			4,593,829.00
40200-510042	Salaries - Contra			280,823.00
40200-518100	Benefits			386,189.00
40200-525500	Salary/Benefit Reimbursement			4,452,549.00
40200-546400	Capital Assets-System			7,476.00
40200-546400	Capital Assets-System			125,287.00
40200-755880	CA- Other Operating Grants			122,273.00
40200-775800	Disposal Fees			20,174.00
<b>Total</b>			<b>10,194,531.00</b>	<b>10,194,531.00</b>
<b>Adjusting Journal Entries JE # 2</b>		<b>PSR-13-1</b>		
Client Provided JE to adjust capital asset depreciation				
40200-198300	Accum Depreciation-Infrastruct		802,884.00	
40200-198301	Accum Depreciation-Liners		62,303.00	
40200-523230	Miscellaneous Expense		66,953.00	
40200-535562	Depreciation-Vehicles		206,892.00	
40200-198202	Accum Depreciation-Vehicles			35,006.00
40200-535583	Depreciation-Field			178,319.00
40200-535565	Depreciation-Shop Yard Equip			12,197.00
40200-535580	Depreciation-Infrastructure			802,310.00
<b>Total</b>			<b>1,127,832.00</b>	<b>1,127,832.00</b>
<b>Adjusting Journal Entries JE # 3</b>		<b>PSR-13-1</b>		
More client provided JE's				
40200-515200	Retiree Health Ins		49,000.00	
40200-527780	Special Program Expense		8,397,412.00	
40212-250150	Closure Costs-Current		1,976,384.00	
40212-287120	Closure Costs-Non Current		28,320,720.00	
40200-286700	Net OPEB Liability			49,000.00
40212-313300	Restricted Net Assets			30,297,104.00
40213-250200	Remediation Costs-Current			1,512,770.00
40213-287140	Remediation Costs-Non Current			6,884,642.00
<b>Total</b>			<b>38,743,516.00</b>	<b>38,743,516.00</b>
<b>Adjusting Journal Entries JE # 4</b>		<b>PSR-13</b>		
To correct client provided entry and to back out change in est closure costs from restricted net assets and put into other non-operating revenue account.				
40200-527740	Site Closure		129,111.00	
40212-313300	Restricted Net Assets		30,297,104.00	
40200-790050	Change in post closure liability			30,297,104.00
40212-287120	Closure Costs-Non Current			129,111.00
<b>Total</b>			<b>30,426,216.00</b>	<b>30,426,216.00</b>

Client: 70618 - County of Riverside  
 Engagement: 70618-003 - 6/30/11 Waste Management Department Audit (E Fund)  
 Period Ending: 6/30/2011  
 Trial Balance: TB - Annual Trial Balance - 2 Year  
 Workpaper: PSR-23-1 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 5</b>				
To reverse original entry by client and post correct closure liability.		CC		
40200-380100	Unrestricted Net Assets			
40200-740020	Interest-Invested Funds		9,792,589.00	
40200-740040	Interest-Other		116,792.00	
40200-760050	Change in post closure liability		771,871.00	
40212-287120	Closure Costs-Non Current		30,297,104.00	
40200-287120	Closure Costs-Non Current		6,816,852.00	
40200-380100	Unrestricted Net Assets			9,792,589.00
40200-740040	Interest-Other			771,871.00
40200-760080	Change in post closure liability			116,792.00
40212-260160	Closure Costs-Current			6,816,852.00
40212-287120	Closure Costs-Non Current			1,976,384.00
<b>Total</b>			<u>47,595,188.00</u>	<u>28,320,720.00</u>
<b>Adjusting Journal Entries JE # 6</b>				
To correct classification of fund balance per the County from unrestricted to restricted.				
40200-380100	Unrestricted Net Assets		600,020.00	
40200-313300	Restricted Net Assets			599,503.00
40200-623230	Miscellaneous Expense			517.00
<b>Total</b>			<u>600,020.00</u>	<u>600,020.00</u>