

638
**SUBMITTAL TO THE BOARD OF SUPERVISORS
 COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



FROM: Auditor-Controller

SUBMITTAL DATE:
 December 18, 2014

SUBJECT: Fiscal Year 2013-14 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*. Districts: All [\$0].

RECOMMENDED MOTION: That the Board of Supervisors:

1. 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, 2014

BACKGROUND:

Summary

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

Departmental Concurrence

Paul Angulo
 Paul Angulo, CPA, M.A.
 County Auditor-Controller

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 0	\$ 0	\$ 0	\$ 0	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0	

SOURCE OF FUNDS:	Budget Adjustment: No
	For Fiscal Year: 2014

C.E.O. RECOMMENDATION: APPROVE
 BY: *Samuel Wong*
 Samuel Wong
 County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- Positions Added
- Change Order
- A-30
- 4/5 Vote

Prev. Agn. Ref.: _____ District: All _____ Agenda Number: _____

**SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Fiscal Year 2013-14 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.**

Districts: All [\$0].

DATE: December 18, 2014

PAGE: 2 of 2

BACKGROUND:

Summary (continued)

The Financial Highlights provides a 22-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 209 pages CAFR for Fiscal Year 2013-14.

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.

Impact on Citizens and Businesses

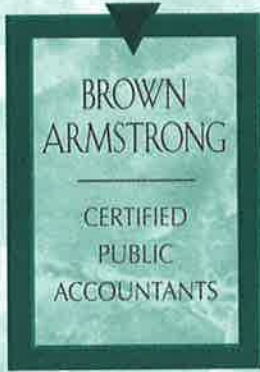
There is no impact on Citizens and Businesses. The items provided are for informational purposes only.

Attachments:

- A. Comprehensive Annual Financial Report
- B. Popular Annual Financial Report
- C. Management Letter
- D. SAS 114 Letter

**COUNTY OF RIVERSIDE,
CALIFORNIA**

**MANAGEMENT LETTER
JUNE 30, 2014**



BROWN ARMSTRONG

Certified Public Accountants

To the Honorable Board of Supervisors
County of Riverside, California

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, California (the County) as of and for the year ended June 30, 2014, 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 audit procedures that are appropriate in the circumstances 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 a 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in internal control to be significant deficiencies:

Current Year Management Letter Findings

Finding 2014-001 - Bond payable missed principle payment

Condition:

While performing testwork over bonds payable, we noted the Pension Obligation Bond 2005 A Series outstanding bond balance was not properly reduced for a current year principal payment of \$12.3 million.

Criteria:

The outstanding bond payable should be properly reduced for current year bond principle payments.

Cause of Condition:

There was a formula error in the bond rollforward schedule and there was no proper review of the bond rollforward or financial statements footnotes.

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

Effect of Condition:

There is a risk of more material errors in the financial statements if there is no proper review of the bond rollforward and financial statements footnotes.

Recommendation:

We recommend that management review the bond rollforward and the bond financial statement footnote to verify that all principal payments have been properly applied to the outstanding bond balances.

Management Response:

Management will work with the Executive Office to ensure that all amortization schedules are up to date and verify that the principal payments match with the bond roll forward schedules.

Status of Prior Year Management Letter Findings

None.

This communication is intended solely for the information and use of management, the Board of Supervisors, 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 5, 2014



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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Riverside, California (the County) for the year ended June 30, 2104. 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 letter to you dated June 11, 2014. 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 are described in Note 1 to the financial statements. The County adopted Government Accounting Standards Board (GASB) Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and 62*; GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*; and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* during fiscal year 2014. We noted no transactions entered into by the County 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 post employment benefit obligation, depreciation, and valuations of certain infrastructure. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

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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 Position in Note 3 to the financial statements.
- The disclosure of Commitments and Contingencies in Note 23 to the financial statements.
- The disclosure of Subsequent Events in Note 24 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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes audit adjustments that, in our judgment, indicate matters that could have a significant effect on the County's financial reporting.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 5, 2014.

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'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 generally accepted in the United States of America, 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.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis and Schedules of Funding Progress, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Schedule of expenditures of federal awards and Combining and individual fund financial statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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 were not engaged to report on Introductory Section and Statistical Section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

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

BROWN ARMSTONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 5, 2014

Client: *County of Riverside*
 Engagement: *County of Riverside*
 Period Ending: *6/30/2014*
 Workpaper: *Corrected audit adjusting journal entries (in thousands)*

Account	Description	Debit	Credit
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Adjusting Journal Entries JE # 1

To fix the current year bond payment that was erroneously not included in the bond schedule.

Dr	General government	12,275	
Cr	Bonds payable		12,275
Total		<u>12,275</u>	<u>12,275</u>

Adjusting Journal Entries JE # 2

To adjust the pension trust cash & investments to fair value.

Dr	Cash and investments	2,866	
Cr	Investment income		2,866
Total		<u>2,866</u>	<u>2,866</u>