County of Santa Clara
Finance Agency
Controller–Treasurer Department

FGOC – F01 040507

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Submitted by: David G. Elledge
Controller–Treasurer

DATE: April 5, 2007

TO: Supervisor Pete McHugh, Chairperson
    Supervisor Liz Kniss, Vice–Chairperson
    Finance & Government Operations Committee

FROM: John V. Guthrie
      Finance Agency Director

SUBJECT: Audit Report of the County’s Financial Statements, Single Audit Report, and

RECOMMENDED ACTION
Consider recommendations from the Controller–Treasurer Department relating to the Audit
Report, Comprehensive Annual Financial Report (CAFR), Single Audit Report, and the Client
Communication Letter of the County of Santa Clara (the County) for the fiscal year ended
Possible action:

a. Accept the Audit Report, Comprehensive Annual Financial Report (CAFR), Single Audit Report, and the Client Communication Letter of the County of Santa Clara (the County) for the fiscal year ended June 30, 2006; and

b. Agendize these reports for acceptance by the Board of Supervisors

**CONTRACT HISTORY**

In 2001, the County awarded a 5–year contract to Macias Gini & O’Connell LLP (MGO), Certified Public Accountants, to audit the County’s CAFR in accordance with generally accepted auditing standards, issued by the Comptroller General of the United States; and to audit the County’s Schedule of Expenditures for Federal Awards (SEFA) in accordance with the requirements set in the OMB Circular A–133 and the Single Audit Act of 1996. In 2004, the Board approved the extension of the contract term by three years to 2008. These reports are a portion of the work product of the sixth annual audit performed by MGO.

**Performance Measures**

The County's CAFR for the fiscal year ended June 30, 2005 was awarded a certificate of achievement for excellence in financial reporting by the Government Finance Officers' Association of the United States and Canada (GFOA). This was the seventh consecutive year the County achieved this prestigious award.

The contract with MGO calls for a December 15 deadline for all deliverables. Like other local governments, the first concentration is focused on the issuance of the CAFR. The GFOA deadline for CAFR submission for its award program is December 31. Likewise, the industry standards and expectations of other entities, such as the State Controller and credit rating agencies, is also the end of December. Assuredly, a copy of the CAFR is immediately provided to each Board member and the County Executive upon receipt of printed copies.

The field work for the County's current year financial audit was completed in November 2006. The audit report, is dated as of November 28, 2006.
Toward the Controller's commitment to issuing an early CAFR, we developed a schedule of deliverables with the auditors to ensure that the FY2006 CAFR was issued before November 30, 2006.

The auditors completed their field work in early November and provided us a draft copy of the CAFR in mid November. From that point on, the County and the audit staff worked together until the final CAFR was produced. This process involved going through several draft versions of the CAFR before the report was finalized, and sent to the printers. Historically, the auditors (the current, as well as prior CPA firms), have issued the CAFR within six months following the end of the fiscal year.

The contract calls for a December 15 deadline for all deliverables. The Government Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analyses—for State and Local Governments" has significantly changed the reporting requirements for the County's CAFR. Some of the information presented in the MD&A (Management Analysis and Discussion) is not available until the government-wide financial statements (prepared on full accrual basis of accounting) are audited. Controller staff needs at least three weeks to complete their analysis of the government-wide financial statements for any MD&A presentation. This makes the December 15 deadline even more challenging. For the past five years, Controller staff and the auditors have spent unexpectedly increasing number of hours to meet the GASB34 reporting requirements. This is a tremendous achievement considering the loss of critical positions to budget cuts.

The single audit report and the management letter, which require responses from County departments are generally issued after the CAFR. While the contract calls for a December 15 deadline for all deliverables, in retrospect, we believe, some of these expectations may be unreasonable due to the time required for the auditors to gather information from the departments, and the reporting changes under GASB34.

**REASONS FOR RECOMMENDATION**

Section 603 of the County Charter requires that the County's audit report should be submitted to the Board of Supervisors annually. In conjunction with the financial audit, Macias Gini & O'Connell LLP performed a 'Single Audit' of the federal financial awards received by the County.
This transmittal presents the County's Audit Report, CAFR, Single Audit Report and the Client Communication/Management Letter for the fiscal year ended June 30, 2006 for acceptance by the FGOC.

1. County Financial Statements
   The auditor's issued an unqualified opinion on the County's financial statements for the year ended June 30, 2006.

2. Single Audit Report
   The auditors have issued a qualified opinion on compliance with the Government Auditing Standards and the OMB Circular A–133. The enclosed Single Audit Report includes the following required reports/opinions:

   a. Independent Auditors report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. For the fiscal year ended June 30, 2006, the auditors noted no instances of noncompliance that are required to be reported under those standards.

   b. Independent Auditors report on compliance with requirements applicable to each major program, internal control over compliance, and the schedule of expenditures of federal awards in accordance with Circular A–133, issued by the United States Office of Management and Budget (OMB). In the auditors' opinion, except for the noncompliance described in the subsequent paragraph, the County complied, in all material respects, with the OMB Circular A–133 requirements applicable to each of its major federal programs for the fiscal year ended June 30, 2006.

   The County did not comply with the requirements regarding eligibility and special tests provisions that are applicable to the Temporary Assistance for Needy Families (CFDA 93.558) program. In the auditors' opinion, compliance with such requirements is necessary for the County to comply with the requirements applicable to this program. The auditors also noted that the reportable condition described above is not a material weakness. The auditors duly communicated their findings to the concerned department.

Board of Supervisors: Donald F. Gage, Blanca Alvarado, Pete McHugh, Ken Yeager, Liz Kniss
County Executive: Peter Kutras Jr.
3. Client Communication Letter

Professional auditing standards, contained in Statement on Auditing Standards (SAS) No. 61, require auditors to communicate with the Audit Committee or its equivalent, on a number of subjects. The enclosed 'Client Communication Letter' satisfies those requirements, and is solely for use of the Board of Supervisors and management.

**BACKGROUND**

In accordance with its Charter Section 603, the County's financial statements for the year ended June 30, 2006 were audited by MGO. The auditor's report on the financial statements expresses an unqualified opinion regarding the statements.


The CAFR, prepared according to Government Accounting Standards Board (GASB) Statement 34, is organized in the following sections:

a. The Introductory Section contains information that familiarizes the reader with the County's organizational structure, nature and scope of services it provides, and specifies its legal operating environment. This section also includes a transmittal letter from the County Executive and the Director of the Finance Agency highlighting significant matters presented in the financial statements.

b. The Financial Section includes the independent auditor's report on the basic financial statements, the Management's Discussion and Analysis (MD&A) of the County's overall financial position and changes in financial position, the audited basic financial statements, note disclosures, required supplementary information other than MD&A, and other combining statements and schedules to provide readers with a comprehensive understanding of the County's financial activities of the past fiscal year.

c. The Statistical Section provides detailed information as a context for understanding the information presented in the basic financial statements. This information is required to be reported under GASB Statement 44, "Economic Condition Reporting."
The County’s CAFR for the fiscal year ended June 30, 2005 was awarded a certificate of achievement for excellence in financial reporting by the Government Finance Officers' Association of the United States and Canada (FGOC). This was the seventh consecutive year the County achieved this prestigious award.

2. Single Audit Report

Issued under Government Auditing Standards and the OMB Circular A–133, the County’s Single Audit Report for the year ended June 30, 2006 includes the following information:

a. Independent Auditors Report

*on compliance and on internal control over financial reporting based on an audit of basic financial statements performed in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, and

*on compliance with requirements applicable to each major program, internal control over compliance, and the schedule of expenditures of federal awards in accordance with Circular A–133, issued by the United States Office of Management and Budget (OMB).

b. Schedule of Expenditures of Federal Awards presents the expenditures of all federal award programs of the County for the fiscal year ended June 30, 2006.

c. Schedule of findings and questioned costs presents the auditors' findings, questioned costs (if any), and auditor's recommendations. It also includes the County's response to those recommendations.

d. Summary schedule of prior audit findings.

3. Client Communication Letter
Under Auditing Standards (SAS) No. 61, the auditors are required to communicate with the Audit Committee or its equivalent, on a number of subjects. This Client Communication Letter (Management Letter) satisfies the SAS 61 requirements, and is solely for use of the Board of Supervisors and management.

Copies of the County's CAFR, Single Audit Report, and the Client Communication Letter for the fiscal year ended June 30, 2006, are on file in the Controller–Treasurer's Department.

Representatives from the audit firm of Macias Gini & O'Connell LLP (MGO), Certified Public Accountants, will be available to present these reports to the Finance and Government Operations Committee at its April 5, 2007 meeting.

**CONSEQUENCES OF NEGATIVE ACTION**
The County will fail to demonstrate compliance with Section 603 of the County's Charter which requires an annual audit of the County's financial statements be presented to the Board.

**STEPS FOLLOWING APPROVAL**
The FGOC will agendize these reports for acceptance by the Board of Supervisors.

**ATTACHMENTS**

- Management Letter FY2006
- Single Audit Report