
**COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2007**

**SMITH AND NEWELL
CERTIFIED PUBLIC ACCOUNTANTS
1425 BUTTE HOUSE ROAD, SUITE B
YUBA CITY, CALIFORNIA 95993**

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**COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2007**

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INTRODUCTION

To the Board of Supervisors and the Grand Jury
County of Sutter
Yuba City, California

In planning and performing our audit of the County of Sutter for the year ended June 30, 2007, we considered the County's internal control over financial reporting in order to determine 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 over financial reporting.

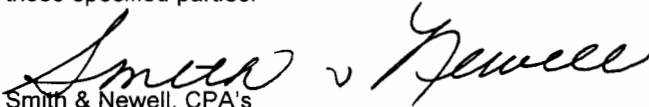
A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies listed as items 07-01 and 07-02 described in the accompanying memorandum to be significant deficiencies in internal control over financial reporting.

During our audit we became aware of certain other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. We previously reported on the County's internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards in our report dated January 15, 2008.

In addition, we consider the item listed as 07-03 to be an instance of non compliance required to be reported in accordance with OMB Circular A-133. We previously reported on the County's compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 in our report dated January 15, 2008.

We have already discussed these comments and suggestions with County personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of management, others within the organization, the Board of Supervisors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.


Smith & Newell, CPA's
Yuba City, California
January 15, 2008

**COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
REQUIRED COMMUNICATION
FOR THE YEAR ENDED JUNE 30, 2007**

The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County of Sutter's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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 estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences.
- Capital asset lives and depreciation expense

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correcting of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the County's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, either individually or in the aggregate, indicate matters that could have a significant effect on the County's financial reporting process.

**COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
REQUIRED COMMUNICATION
FOR THE YEAR ENDED JUNE 30, 2007**

Disagreements with Management

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

Consultations with Other Independent Auditors

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 governmental unit'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.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

07-01 POLICIES AND PROCEDURES

Condition

We noted that the County does not have an updated written procedures guide for performing many of the current financial processes. Lack of organized written procedures has contributed to significant operating difficulties with the County.

Cause

The County does not have adequate written policies and procedures.

Criteria

Good internal control requires that procedures be documented and performed in a consistent manner in accordance with approved County policy.

Effect of Condition

Without written procedures, tasks may not be performed in a consistent manner among employees and or departments which can result in significant operating difficulties.

Recommendation

We recommend that the County initiate a serious effort to develop and implement comprehensive policies and procedures for all current financial processes. This is a repeat of a prior year recommendation.

07-02 FUND BALANCE - COUNTY GENERAL RESERVE

Condition

During the fiscal year ended June 30, 2004, we noted that the County General Reserve had been decreased by \$265,334. There was no legally declared emergency by the Board of Supervisors to authorize this decrease. Despite discussion between the Auditor Controller's department, the Board of Supervisors and the County Administrator's department the General Reserve has not yet been restored back to its original balance of \$1,088,000.

Cause

The County does not have adequate written policies and procedures regarding the necessity of designating specific account numbers when reserve and designation are reclassified.

Criteria

Per State Government Code, except in cases of a legally declared emergency, the general reserve may only be established, canceled, increased or decreased at the time of adopting the budget .

Effect of Condition

The County General Reserve was decreased without proper authorization.

Recommendation

We recommend that the General Reserve be restored back to its original balance of \$1,088,000. This is a repeat of a prior year recommendation.

COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

07-03 ADOPTION ASSISTANCE PROGRAM - CFDA 93.659

Condition

Title 22 California Code of Regulations Section 35331 (a) requires that the determination of the child's eligibility for adoption assistance be documented in the case record on the Eligibility Certification - Adoption Assistance Program form (the AAP-4). The County does document eligibility on the AAP-4 by the completion of the form, which is signed by the "Authorized Official of Public Adoption Agency." However, a second signature is required on the AAP-4. The "Authorized Official of County Welfare Department" must sign the AAP-4 and check the appropriate box, which indicates FFP eligibility or non-eligibility.

On seven of twenty-five cases tested, the AAP-4s were completed and signed by the "Authorized Official of Public Adoption Agency" but these AAP-4 were not signed by the "Authorized Official of County Welfare Department," which is the County eligibility staff.

Cause

Appropriate training or review procedures concerning required forms completion was inadequate.

Criteria

The County is not in compliance with Title 22 California Code of Regulations Section 35331(a).

Effect of Condition

When the AAP-4 is not signed by the Authorized Official of County Welfare Department and/or the federal eligibility or non-eligibility box is not marked, the likelihood of errors in eligibility determination increase.

Recommendation

We recommend that the County require that the AAP-4s be signed by the "Authorized Official of County Welfare Department" (County eligibility staff) and that this person check the appropriate box showing determination of FFP eligibility on the bottom of this form. We also recommend that the County incorporate into their review process procedures to ensure that the AAP-4s are properly completed and executed.

07-04 CAPITALIZATION POLICY

Condition

At the time of our audit, we noted that the County did not have a formal capitalization policy that addressed infrastructure assets or estimated useful asset lives. In fiscal year 2006, the County issued a memorandum revising the estimated life of a road from 15 to 30 years. However, this information along with other details of a complete infrastructure accounting system has never been formalized into a comprehensive infrastructure capitalization policy.

Cause

The County does not have adequate written policies and procedures.

Criteria

Generally accepted accounting principles require that capital assets, that generally constitute the single largest asset of the County, be accurately recorded.

Effect of Condition

Without a written capitalization policy which addresses infrastructure and estimated useful asset lives, inconsistencies and misunderstandings regarding proper policy are likely to occur. In addition, misstatement of net capital assets as well as a lack of comparability between years can result when policies and procedures regarding capital assets are unclear.

COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

07-04 CAPITALIZATION POLICY (CONTINUED)

Recommendation

We recommend that the County adopt a comprehensive updated capitalization policy which includes all required capital asset accounting elements including infrastructure and estimated useful asset life. This is a repeat of a prior year recommendation.

07-05 PAYROLL TRUSTS

Condition

We noted that the Personnel Benefits Revolving Trust fund (5226), had not been reconciled. The fund had individual account balances ranging from Regular Health (2002-03) with a credit balance of \$467,508 to Regular Health (2000-2001) with a debit balance of \$138,978. We also noted that accounts in the Payroll Revolving Trust fund (5225) had not been reconciled and contained errors at the time of our fieldwork.

Cause

The County does not regularly reconcile Personnel Benefits Revolving Trust fund or the Payroll Revolving Trust fund.

Criteria

Good internal control requires regular reconciliation of all trust funds.

Effect of Condition

Without monthly trust account reconciliations of all payroll trusts, errors and irregularities could occur and not be detected in a timely manner.

Recommendation

We recommend that the unresolved differences be resolved and any inactive accounts be closed. This is a repeat of a prior year recommendation.

07-06 BUDGETING FOR CHANGES IN RESERVES/DESIGNATIONS

Condition

We noted the County has budgeted for cancellation of prior year reserves as an income item and increase in reserves as an expenditure item. Cancellation of prior year reserves or designations should be recorded as an increase in total available financing and provisions for new reserves and/or designations should be recorded as an increase in total financing requirements in the County annual budget rather than as an income and/or expenditure item.

Cause

The County has not revised written policies and procedures regarding accounting for reserve and designation adjustments.

Criteria

Budgeting for provisions for reserves/designations should only be reflected in County Budget Form Schedule 1A.

COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

07-06 BUDGETING FOR CHANGES IN RESERVES/DESIGNATIONS (CONTINUED)

Effect of Condition

The County is recording budgeted cancellation of prior year reserves as an income item and increase in current year reserves as an expenditure item which results in variances in budget to actual comparisons.

Recommendation

We recommend that the County only record provisions for reserves/designations in County Budget Form Schedule 1A. This is a repeat of a prior year recommendation.

07-07 FLEET MANAGEMENT UNRESTRICTED NET ASSETS

Condition

We noted that the County Fleet Management fund (4580), had unrestricted net assets in excess of 60 days working capital.

Cause

The County has not revised written policies and procedures involving accounting for the County Fleet Management internal service fund.

Criteria

Generally unrestricted net assets in excess of 60 days working capital is considered excessive. However, a provision is available for designating certain amounts in excess of the minimum 60 days working capital.

Effect of Condition

The County has excess unrestricted net assets or has not properly recorded reserves/designations for fleet replacement.

Recommendation

We recommend that the County analyze this fund and determine whether there are unrecorded reserves/designations for fleet replacement that should be recorded. If there are reserves/designations to be recorded, the entry would be to credit the reserve account within the Fleet Management fund and debit the undesignated retained earnings. If a policy change is to be implemented, it should be agreed upon between the interested parties and clearly described in a written policy statement. If the new Vehicle Replacement fund 4585 was intended to function as a reserve, fund procedures need to be developed to accomplish that purpose. This is a repeat of a prior year recommendation.

07-08 FLEXIBLE SPENDING ACCOUNT

Condition

During our audit, we noted cash in the amount of \$37,092 was held by an outside agent for the flexible spending account and was not reflected on the County's financial records.

Cause

The County has not resolved this prior year condition.

Criteria

Good internal control requires that all cash be recorded on the County's general ledger and that each cash account be reconciled monthly.

COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

07-08 FLEXIBLE SPENDING ACCOUNT (CONTINUED)

Effect of Condition

The County's cash did not include the flexible spending account.

Recommendation

We recommend that the County reconcile and record the activity in the flexible spending account. This is a repeat of a prior year recommendation.

07-09 COUNTY OPERATING FUNDS

Condition

During our audit, we noted that the fund number for Mental Health Patient Government fund (4991) was included in the fund number sequence for trust funds rather than in the sequence for special revenue funds.

Cause

The County has not resolved this prior year condition.

Criteria

GASB Statement Number 34 defines trust and agency funds as a fund used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

Effect of Condition

When County operating funds are not correctly classified in the Chart of Accounts, the risk that they may be inappropriately reported is increased.

Recommendation

We recommend that County operating funds be numbered in a sequence that is separate from the trust and agency funds and that any funds inappropriately numbered be re-numbered. This is a repeat of a prior year recommendation.

07-10 REVENUE RECOGNITION

Condition

During our audit we noted that in the Fleet fund (4580) various revenues are recorded on the County general ledger as deposits payable rather than as income. At June 30, 2007, the balance in this account was \$57,882.

Cause

The County has not revised written policies and procedures involving proper use of the deposits payable account.

Criteria

Generally accepted accounting principles require that revenue be recognized when earned.

Effect of Condition

By recording revenue as a liability the County is overstating liabilities and understating revenues, and is not in compliance with GASB 33.

COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

07-10 REVENUE RECOGNITION (CONTINUED)

Recommendation

We recommend that this account be analyzed and that the County review their accounting policies and procedures to ensure that all items of revenue are accounted for properly. This is a repeat of a prior year recommendation.

07-11 VEHICLE REPLACEMENT FUND

Condition

During our audit we noted that the Vehicle Replacement fund (4585), which was established during 2004/05, recorded accumulated depreciation in excess of the capital asset balance in the fund. This is a continuing situation with vehicles recorded of \$268,158 and accumulated depreciation recorded of (\$558,951).

Cause

The County has not resolved this prior year condition.

Criteria

Generally accepted accounting principles require that capital assets be depreciated over their estimated useful life. However, the accumulated depreciation should never be in excess of the capital asset balance.

Effect of Condition

Fund 4585 does not appear to be used for the purpose for which it was established and the information presented is incomplete and misleading.

Recommendation

We recommend that the County review fund 4585 to ensure that this fund is being used for the purpose for which it was established. In addition, we recommend that the capital assets and accumulated depreciation be transferred to Fleet Management fund 4580. This is a repeat of a prior year recommendation.

07-12 STATEMENT ON AUDITING STANDARDS NO. 112

Condition

This standard provides guidance on communicating internal control matters and revises certain terminology. Of particular importance, the new standard and its interpretive guidance emphasize that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation of the financial statements, including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. The County's external auditor cannot be a part of the internal controls including controls over the preparation of the financial statements. Adequate controls over preparation of the financial statements when the County does not prepare their own financial statements could include:

- The County has experienced staff capable of understanding the financial statements and competently reviewing them for errors or omissions.
- The County personnel review the financial statements groupings and supporting schedules.
- The County personnel complete a disclosure checklist to ensure all disclosures have been made and the financial statements are complete.

COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
CURRENT YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

07-12 STATEMENT ON AUDITING STANDARDS NO. 112 (CONTINUED)

Cause

New auditing standards specifically require the County to assume increased responsibility for the preparation of the audited financial statements

Criteria

Statement on Auditing Standards No. 112 provides specific guidance for communicating weaknesses in internal control, including weaknesses in controls regarding preparation of the financial statements when the County does not prepare their own financial statements.

Effect of Condition

Inability to demonstrate adequate controls in this area could result in communication of a significant deficiency or material weakness.

Recommendation

We recommend that the County take all steps necessary to ensure that staff is in compliance with Statement on Auditing Standards No. 112 requirements.

**COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007**

Recommendation	Status/Comment
POLICIES AND PROCEDURES	
We recommend that the County initiate a serious effort to develop and implement comprehensive policies and procedures for all current financial processes.	In Progress
LOANS RECEIVABLE	
We recommend that loan activity be correctly recorded during the year and that program income received be reconciled to the actual loan activity.	Implemented
CAPITALIZATION POLICY	
We recommend that the County adopt a comprehensive updated capitalization policy which includes all required capital asset accounting elements including infrastructure and estimated useful asset life.	Partially Implemented
PAYROLL TRUSTS	
We recommend that the unresolved differences be resolved and any inactive accounts be closed.	Not Implemented
BUDGETING FOR CHANGES IN RESERVES/DESIGNATIONS	
We recommend that the County only record provisions for reserves/designations in County Budget Form Schedule 1A.	Not Implemented
FLEET MANAGEMENT UNRESTRICTED NET ASSETS	
We recommend that the County analyze this fund and determine whether there are unrecorded reserves/designations for fleet replacement that should be recorded. If there are reserves/designations to be recorded, the entry would be to credit the reserve account within the Fleet Management fund and debit the undesignated retained earnings. If a policy change is to be implemented, it should be agreed upon between the interested parties and clearly described in a written policy statement. If the new Vehicle Replacement fund 4585 was intended to function as a reserve, fund procedures need to be developed to accomplish that purpose.	Not Implemented
SHERIFF INMATE WELFARE FUND	
We recommend that the inmate welfare outside bank account be brought into the County Treasury and if necessary, establish a smaller balance as an imprest account for immediate needs.	Implemented
FLEXIBLE SPENDING ACCOUNT	
We recommend that the County reconcile and record the activity in the flexible spending account.	Not Implemented

**COUNTY OF SUTTER, CALIFORNIA
MANAGEMENT REPORT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007**

Recommendation	Status/Comment
SCHEDULE OF FEDERAL EXPENDITURES	
We recommend that the County compile the required single audit information prior to the audit. Typically, this information is requested from the departments by the Auditor-Controller so that a schedule can be prepared. When this information is not specifically requested from the responsible departments there is a risk that federal programs may inadvertently be omitted.	Implemented
COUNTY OPERATING FUNDS	
We recommend that the County operating funds be numbered in a sequence that is separate from the trust and agency funds and that any funds inappropriately numbered be re-numbered.	Partially Implemented
INVENTORY	
We recommend that procedures be developed to ensure inventory records are adjusted to reflect all items used from inventory, as well as all items added to inventory.	Implemented
REVENUE RECOGNITION	
We recommend that the County review their accounting policies and procedures to ensure that all items of revenue are accounted for properly.	Not Implemented
VEHICLE REPLACEMENT FUND	
We recommend that the County review fund 4585 to ensure that this fund is being used for the purpose for which it was established. In addition, we recommend that the capital assets and accumulated depreciation be transferred to Fleet Management fund 4580.	Not Implemented
PROPERTY TAX RECONCILIATIONS AND RESERVES	
We recommend that the Taxes fund (5218) be reconciled to the property tax rolls.	Implemented
RESERVES AND DESIGNATIONS OF FUND EQUITY	
We recommend that the County analyze all classifications of fund equity and ensure that they are properly named as a reserve or designation. We also recommend that the County analyze all accounts within the equity section of each fund and determine that there is proper authorization for the amounts recorded.	Not Implemented
FUND BALANCE - COUNTY GENERAL RESERVE	
We recommend that the General Reserve be restored back to its original balance of \$1,088,000.	Not Implemented