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**COUNTY OF SUTTER, CALIFORNIA  
SINGLE AUDIT ACT  
REPORTS AND SCHEDULES  
FOR THE YEAR ENDED JUNE 30, 2007**

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

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**COUNTY OF SUTTER, CALIFORNIA  
SINGLE AUDIT ACT  
FOR THE YEAR ENDED JUNE 30, 2007**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of County of Sutter, California (County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirement of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of non compliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Item 07-03.

**Internal Control Over Compliance**

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the County of Sutter as of and for the year ended June 30, 2007, and have issued our report thereon dated January 15, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements that collectively comprise the County's basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Handwritten signatures of two individuals, likely representing Smith & Newell CPA's, in cursive script.

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

**COUNTY OF SUTTER, CALIFORNIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

<u>Federal Program/Pass Through Program Title</u>	<u>CFDA Number</u>	<u>Federal Pass-Through Grantor Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed through State Department of Social Services:			
Food Stamps	10.551	-	\$ 7,389,442
State Administrative Matching Grants for Food Stamp Program	10.561	-	297,546
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	-	<u>618,299</u>
<b>Total U.S. Department of Agriculture</b>			<u>8,305,287</u>
<u>U.S. Department of Defense</u>			
Direct Program:			
Payments to States in Lieu of Real Estate Taxes	12.112	-	<u>6,319</u>
<b>Total U.S. Department of Defense</b>			<u>6,319</u>
<u>Department of Housing and Urban Development</u>			
Passed through State Department of Housing and Community Development:			
Community Development Block Grants/State's Program	14.228	04-EDBG-636	<u>27,642</u>
<b>Total Department of Housing and Urban Development</b>			<u>27,642</u>
<u>U.S. Department of Justice</u>			
Passed through State Board of Corrections:			
Juvenile Accountability Incentive Block Grants	16.523	CSA 133-05	72,737
Passed through State Office of Justice Programs:			
State Criminal Alien Assistance Program	16.606	2007 AP BX 0117	34,997
Bulletproof Vest Partnership Program	16.607	-	1,780
Passed through State Office of Emergency Services:			
Crime Victim Assistance	16.575	VW 06200510	59,948
Edward Byrne Memorial Formula Grant Program	16.579	DC 06190510	123,451
Violence Against Women Formula Grants	16.588	VW 06020510	<u>90,000</u>
<b>Total U.S. Department of Justice</b>			<u>382,913</u>
<u>U.S. Department of Transportation</u>			
Passed through State Department of Transportation			
Highway Planning and Construction	20.205	BHLVS-5918 (062)	5,459
Highway Planning and Construction	20.205	BPMP-5918 (066)	255
Highway Planning and Construction	20.205	BRLO-5918 (032)	75,866
Highway Planning and Construction	20.205	BRLO-5918 (052)	10,095
Highway Planning and Construction	20.205	BRLO-5918 (056)	725,647
Highway Planning and Construction	20.205	BRLS-5918 (012)	12,742
Highway Planning and Construction	20.205	BRLS-5918 (034)	18,543
Highway Planning and Construction	20.205	STPL-5918 (064)	650,409
Highway Planning and Construction	20.205	STPLH-5918 (053)	<u>323,242</u>
Subtotal 20.205			<u>1,822,258</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COUNTY OF SUTTER, CALIFORNIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

<u>Federal Program/Pass Through Program Title</u>	<u>CFDA Number</u>	<u>Federal Pass-Through Grantor Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of Transportation (Continued)</u>			
Passed through Federal Aviation Administration Airport Improvement Program	20.106	AIP 3-060-28203	11,776
<b>Total U.S. Department of Transportation</b>			<b>1,834,034</b>
<u>U.S. Department of Health and Human Services</u>			
Passed through State Department of Social Services:			
Promoting Safe and Stable Families	93.556	-	87,160
Temporary Assistance for Needy Families	93.558	-	6,993,343
Child Support Enforcement	93.563	-	1,917,884
Child Welfare Services - State Grants	93.645	-	64,359
Foster Care - Title IV-E	93.658	-	2,264,770
Adoption Assistance	93.659	-	1,140,014
Social Services Block Grant	93.667	-	476,615
Chafee Foster Care Independent Living	93.674	-	55,736
Passed through State Department of Health Services:			
State Children's Insurance Program	93.767	CCS	140,144
Maternal and Child Health Services Block Grant to the States	93.994	MCH	93,279
Maternal and Child Health Services Block Grant to the States	93.994	CHDP	101,606
Subtotal 93.994			194,885
Bioterrorism Training and Curriculum Development Program	93.996	-	66,358
Medical Assistance Program	93.778	TCM	41,449
Medical Assistance Program	93.778	Title XIX	4,907
Medical Assistance Program	93.778	MAA	39,254
Subtotal 93.778			85,610
Passed through State Department of Mental Health Services:			
Block Grants for Community Mental Health Services	93.958	SAMSHA	334,956
Projects for Assistance in Transition from Homelessness	93.150	PATH	49,495
Passed through State Department of Alcohol and Drug Programs:			
Block Grant for Prevention and Treatment of Substance Abuse	93.959	SAPT	1,087,535
<b>Total Department of Health and Human Services</b>			<b>14,958,864</b>
<u>U.S. Department of Homeland Security</u>			
Direct Program:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 1628-DR-CA	38,698
Passed through Governor's Office of Emergency Services			
Emergency Management Performance Grants	97.042	2006-8	60,020
State Homeland Security Program (SHSP)	97.073	2004-0045	14,248
State Homeland Security Program (SHSP)	97.073	2005-0015	84,278
State Homeland Security Program (SHSP)	97.073	2006-0071	111,784
Subtotal 97.073			210,310

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COUNTY OF SUTTER, CALIFORNIA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

<u>Federal Program/Pass Through Program Title</u>	<u>CFDA Number</u>	<u>Federal Pass-Through Grantor Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of Homeland Security (Continued)</u>			
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	2006-0071	<u>113,365</u>
<b>Total U.S. Department of Homeland Security</b>			<u>422,393</u>
<u>U.S. Department of Education</u>			
Passed through State Adult Education Office: Adult Education State Grant Program	84.002	-	<u>130,972</u>
<b>Total U.S. Department of Education</b>			<u>130,972</u>
<b>Total</b>			<u>\$ 26,068,424</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COUNTY OF SUTTER, CALIFORNIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**1. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the County of Sutter. The County of Sutter reporting entity is defined in Note 1 to the County's financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

**2. BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is sometimes prepared on a basis other than that used to record transactions in the accounting records and as reported in the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and non-Profit Organizations. Sources of information for preparation of the Schedule of Expenditures of Federal Awards varies, depending on the accounting practices and reporting requirements of the department implementing the program. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in, the preparation of the basic financial statements.

**3. RELATIONSHIP TO FINANCIAL STATEMENTS**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the County's financial statements, federal award revenues are reported principally in the County's financial statements as inter-governmental revenue in the General and Special Revenue Funds.

**4. PASS-THROUGH ENTITIES' IDENTIFYING NUMBER**

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the County determined that no identifying number is assigned for the program or the County was unable to obtain an identifying number from the pass-through entity.

**5. OFFICE OF EMERGENCY SERVICES**

The following represents expenditures for the State Office of Emergency Services programs for the year ended June 30, 2007. The amount reported in the Schedule of Expenditures of Federal Awards is determined by calculating the federal portion of the current year expenditures.

Program	Expenditures Claimed For the Year Ended June 30, 2007	Share of Expenditures Current Year		
		Federal Share	State Share	County Share
VW 06200510				
Personal services	\$ 128,351	\$ 55,198	\$ 73,153	\$ -
Operating expenses	6,051	4,750	1,301	-
Equipment	-	-	-	-
Totals	<u>\$ 134,402</u>	<u>\$ 59,948</u>	<u>\$ 74,454</u>	<u>\$ -</u>
OC 06190510				
Personal services	\$ 123,451	\$ 123,451	\$ -	\$ -
Operating expenses	-	-	-	-
Equipment	-	-	-	-
Totals	<u>\$ 123,451</u>	<u>\$ 123,451</u>	<u>\$ -</u>	<u>\$ -</u>
VV 06020510				
Personal services	\$ 105,487	\$ 76,487	\$ -	\$ 29,000
Operating expenses	14,513	13,513	-	1,000
Equipment	-	-	-	-
Totals	<u>\$ 120,000</u>	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>

**COUNTY OF SUTTER, CALIFORNIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**5. OFFICE OF EMERGENCY SERVICES (CONTINUED)**

Program	Expenditures Claimed For the Year Ended June 30, 2007	Share of Expenditures Current Year		
		Federal Share	State Share	County Share
VB 06040510				
Personal services	\$ 122,067	\$ -	\$ 122,067	\$ -
Operating expenses	-	-	-	-
Equipment	-	-	-	-
Totals	<u>\$ 122,067</u>	<u>\$ -</u>	<u>\$ 122,067</u>	<u>\$ -</u>

**6. STATE DEPARTMENT OF JUSTICE**

The following represents expenditures for the State Department of Justice program:

Program	Expenditures Claimed For the Year Ended June 30, 2007	Share of Expenditures Current Year		
		Federal Share	State Share	County Share
06 SA 13D046				
Personal services	\$ 30,109	\$ -	\$ 25,091	\$ 5,018
Operating expenses	9,804	-	8,170	1,634
Equipment	-	-	-	-
Totals	<u>\$ 39,913</u>	<u>\$ -</u>	<u>\$ 33,261</u>	<u>\$ 6,652</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Sutter, California (County), as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

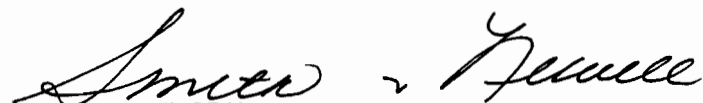
Compliance and Other Matters

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 grant agreements, 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, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

We noted certain other matters that we reported to management of the County in a separate report dated January 15, 2008.

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

Handwritten signatures of Smith and Newell in cursive script.

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

**COUNTY OF SUTTER, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30 2007**

I Summary of Audit Results

1. Type of report issued on the financial statements - Unqualified
2. Reportable condition in internal control disclosed by the audit of the financial statements and any such conditions that are material weaknesses - See Section II.
3. Disclosure of any noncompliance which are material to the financial statements - None
4. Disclosure of any reportable conditions in internal control over major programs and any such conditions that are material weaknesses - None
5. Type of report issued on compliance for major programs - Unqualified
6. Disclosure of any audit findings which are required to be reported under Section 510(a) - See Section III.
7. Major programs are as follows: 10.551, 10.561, 93.563, 93.658, 93.659, 93.959.
8. \$782,053 was used as the threshold to distinguish between Type A and Type B programs
9. Did the County qualify as a low-risk audit under Section 530? - Yes

II Findings related to the financial statements which are required to be reported in accordance with GAGAS

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 within the County.

**Cause**

The County does not have adequate 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. We further recommend that the general reserve be restored to the correct balance. This is a repeat of a prior year recommendation.

**COUNTY OF SUTTER, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30 2007**

07-02 FUND BALANCE - COUNTY GENERAL RESERVE (CONTINUED)

**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.

III Findings and questioned costs for Federal Awards which includes findings as defined in Section 510(a)

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.

**COUNTY OF SUTTER, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30 2007**

07-03 ADOPTION ASSISTANCE PROGRAM - CFDA 93.659 (CONTINUED)

**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.

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

<u>Recommendation</u>	<u>Status/Comment</u>
<u>Prior Year Recommendations related to the financial statements which are required to be reported in accordance with GAGAS</u>	
06-1 POLICES 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
06-2 FUND BALANCE - COUNTY GENERAL RESERVE	
We recommend that the General Reserve be restored back to is original balance of \$1,088,000. This is a repeat of a prior year recommendation.	Not Implemented