

COUNTY OF CONTRA COSTA

Required Communications and Recommendations

Year Ended June 30, 2014

Certified Public Accountants.

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Certified Public Accountants.

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To the Board of Supervisors and the Grand Jury
of the County of Contra Costa
Martinez, 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 Contra Costa (County), for the year ended June 30, 2014, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 12, 2014. Our report includes a reference to other auditors who audited the financial statements of the Contra Costa County Employees' Retirement Association (CCCERA), the First 5 Contra Costa Children and Families Commission (First 5), and the Housing Authority of the County of Contra Costa (Housing Authority), as described in our report on the County's financial statements. This letter does not include the communications related to CCCERA, First 5 and Housing Authority audits, which are reported on separately by those auditors. 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 letter to you dated April 22, 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. As described in Note 1B to the financial statements, the County adopted the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*;
- GASB Statement No. 66, *Technical Corrections 2012, An Amendment of GASB Statements No. 10 and No. 62*; and
- GASB Statement No. 70, *Accounting and Financial Reporting for Non-Exchange Financial Guarantees*.

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 County's financial statements were:

- Fair value of investments
- Estimated allowance for losses on accounts receivable
- Accrual and disclosure of self-insurance claims liabilities (worker's compensation and general liability and other claims liabilities)
- Accrual and disclosure of compensated absences
- Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable property.
- Pension and other postemployment benefit plans' employer contribution requirements and funded status of the plans.
- Contractual adjustments and estimated uncollectible patient accounts receivable.
- Certain receivables and payables related to reimbursement claims for patient services.

Management's judgment and estimates were based on the following:

- The County's investments are generally carried at fair value, which is defined as the amount that the County could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller and is generally measured by quoted market prices.
- Estimated allowances for losses on accounts receivable were based on historical experience.
- Liabilities for workers' compensation claims were based on the independent actuary's and management's estimate calculated from information derived from the County's claims database system, adjusted for a projection of unreported claims and a discount factor.
- Liabilities for general liability and other claims were based on the independent actuary's and the County's attorney's judgment about the ultimate outcome of the claims, adjusted for a projection of unreported claims and a discount factor.
- Accrual and disclosures of compensated absences were based on accrued eligible hours of vacation and sick leave at current pay rates for eligible employees.
- The County uses the straight-line method of depreciation and useful lives for depreciable property were determined by management based on the nature of the capital asset.
- Pension and other postemployment benefit plan's employer contribution requirements and funded status of the plans were based on actuarial valuations performed by the County's independent actuaries.
- Estimates of contractual adjustments and uncollectible patient accounts receivables are based on historical collections and reimbursement formulas prescribed by federal and state legislation.
- The County Hospital provides services to patients covered by various reimbursement programs. The amount of revenue to recognize under these programs is subject to management's best estimates of the revenue that will ultimately be collected based on governmental regulations and contractual terms, including the assessment of risk related to potential retroactive audit adjustments and other uncertainties.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial reporting units that collectively comprise the County's basic financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are the disclosures related to long-term obligations, pension, other postemployment benefits, County Hospital patient service revenue and receivables, and risk management. These disclosures are described in Notes 10, 14, 15, 16 and 17 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

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. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the opinion unit's financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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 12, 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 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, 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, the schedules of funding progress, and the budgetary comparison schedules of the General Fund and major special revenue funds, 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 the combining and individual fund statements and budgetary 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 the introductory and statistical sections, 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 the 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 12, 2014

**COUNTY OF CONTRA COSTA
SCHEDULE OF COMMENTS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014**

Recommendation No. 2014-1

Automating of Manual Processes within the Office of the Treasurer- Tax Collector

Condition

During our evaluation of the County's internal control processes within the Office of the Treasurer- Tax Collector, we noted that the County's monthly cash flow worksheet is prepared manually on columnar paper.

Cause

The current process used for the monthly cash flow worksheet by Office of the Treasurer- Tax Collector is done on a manual basis.

Effect

The preparation of the cash flow worksheet by the Office of the Treasurer- Tax Collector on a manual basis can be both time-consuming for assigned staff and increases the risk for mathematical errors.

Recommendation

In order to improve staff work efficiency and reduce the risk of mathematical errors, we are recommending the County Treasury Department automate the process of preparing the monthly cash flow worksheets.

Management's Response

The Treasurer's Office automated 1) daily Blotter report beginning on January 2nd, 2015, and 2) daily Reconciliation Account report beginning on December 1st, 2014. Using the MS Excel spreadsheet, the Treasurer staff creates these two reports for daily cash flow forecast purposes as part of the cash management process.

Recommendation No. 2014-2

Processing of General Liability Claims

Condition

During our testing of general liability claims submitted against the County, we noted one claim was excluded from the County's processing of such claims. Once a "Claim Form" is completed by the party submitting the claim, the "Claim Form" is then provided to the County Administrator's Office for receipt and acceptance of the claim and is assigned a case number. For one of the claims examined, the County had no documentation supporting the receipt of this claim by the County Administrator's Office.

Cause

The County's process for receipt and acceptance of claims was not followed.

Effect

The effect of this condition was the omission of a claim submitted against the County. This effect may lead to the claim going uninvestigated for an unspecified period of time, management may not be aware of omitted claims on a timely basis, and estimated losses arising from omitted claims may understate the County's liabilities on its financial statements.

**COUNTY OF CONTRA COSTA
SCHEDULE OF COMMENTS AND RESPONSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

Recommendation

We recommend that the County communicate the importance of following the County's policies and procedures to ensure that internal controls over general liability claims are operating as designed.

Management's Response

The County agrees with the finding and will instruct the Clerk of the Board's office to insure that proper documentation supporting receipt of general liability claims submitted against the County are properly receipted and that acceptance of claims are followed to insure that there is documentation supporting receipt of the claims.

Recommendation No. 2014-3

Financial Reporting

Condition

During the course of the County's audit, there were several audit adjustments (corrected and uncorrected) impacting the County's Hospital Funds. The nature of these adjustments were the correction of classification errors for financial reporting purposes.

Cause

The cause of the errors is related to communication between the County Hospital and the Office of the Auditor-Controller's. The accounting division within the County Hospital is responsible for assessing, preparing, and posting the daily accounting transactions. However, the Office of the Auditor-Controller is responsible for compiling accounting information from all of the County departments, including the County Hospital, for financial reporting purposes. In certain cases, the Office of the Auditor-Controller may not be fully aware of the nature of or complexities surrounding departmental transactions, thus leading to various improper classifications in financial statements prepared in accordance with generally accepted accounting principles.

Effect

As a result of this condition, various audit adjustments were necessary in order to present the County's financial statements in accordance with generally accepted accounting principles.

Recommendation

The Office of the Auditor-Controller should improve its communication with the County Hospital, and possibly other County departments, by requiring periodic meetings to discuss and coordinate accounting information provided outside the Office of the Auditor-Controller's that may have specialized accounting or reporting requirements.

Management's Response

The Office of the Auditor-Controller will continue to meet with Health Services (County Hospital) fiscal staff and other county fiscal staff to provide technical assistance as necessary.

**COUNTY OF CONTRA COSTA
SCHEDULE OF COMMENTS AND RESPONSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

Recommendation No. 2014-4

Cash Management and Reporting

Criteria:

U.S. Office of Management and Budget Circular A-102, *Grants and Cooperative Agreements with State and Local Governments (Common Rule)* requires that non-federal entities receiving federal awards (e.g., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The County established policies and procedures to submit cash reimbursement requests on an as needed basis to the pass-through entity for reimbursement. The reimbursement must be adequately supported and conform to the outlined limits within the agreement between the County and California Office of Emergency Services (CalOES).

Condition:

For the year ended June 30, 2014, we tested 10 of 12 cash reimbursement requests. One of ten cash reimbursement requests tested was not properly supported. The County requested \$172,209, however, \$582 did not have evidence that program costs were paid before reimbursement was requested from CalOES.

Questioned Costs:

Not applicable – The County subsequently applied the over claimed amount to other reimbursement requests.

Asserted Cause and Effect:

The County was not adequately staffed during the audit period, therefore, reimbursement requests were not properly reviewed and approved. There is a risk that expenditures and claims will be incorrect.

Recommendation:

We recommend that the County evaluate the effectiveness of its current internal controls over cash reimbursement requests. We also recommend the County provide training for all supervisory employees to reinforce the County's cash reimbursement policies and procedures.

Management Response and Corrective Action:

The County agrees with the finding and has retroactively implemented and improved a new cash request documentation system. This amount was not returned to CalOES, as the Sheriff's Office provided copies of additional invoices related to SHSGP 2009, Project A, totaling \$2,276,775.90; grant fund reimbursements for Project A totaled \$1,204,890. The Sheriff's Office believes these additional identified expenditures adequately account for the error in duplicate invoice submissions for two separate reimbursement requests, \$404 and \$178 totaling \$582.

The person responsible for this corrective action is Mary Jane Robb, Sheriff's Chief of Management Services, who can be contacted at (925) 335-1557 or mrobb@co.cccounty.us.

**COUNTY OF CONTRA COSTA
SCHEDULE OF COMMENTS AND RESPONSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

Recommendation No. 2014-5

Reporting

Criteria:

Per FNS 209 instructions provided by the State:

“This report shall cover the State's activities relating to recipient claims during the report quarter and the status of claims from previous reports. Submission to the Food and Nutrition Service (FNS) of a consolidated State level report is required. Each State agency (SA) shall prepare an original and two copies. The original and one copy shall be submitted to the FNS Regional office so that it will be received in that office by the 30th day following the end of the report quarter. State agencies shall retain the second copy for audit purposes. The report must be submitted even if no payments are collected during the quarter.”

Condition:

During our audit we noted that the report for the quarter ended March 31, 2014, was due by April 30, 2014 but not submitted and certified until May 9, 2014.

Questioned Costs:

None.

Asserted Cause and Effect:

The County did not have adequate internal controls in place to ensure the submission of the required reports and communications on a timely basis.

Recommendation:

We recommend that the County meet all mandated reporting deadlines.

Management Response and Corrective Action:

The County concurs with the finding that one quarterly report, FNS209 were submitted after the due date. The County finds that the late submission was due to the FNS209 for Q2 having been submitted and saved to the State website on May 9, 2014 (with a due date of April 30). The county has already implemented a process to correct this issue by training more personnel on how to submit the FNS209 report.

A Corrective Action Plan for timely submittal of the FNS 209 has been implemented. The plan involves streamlining the FNS209 preparation and cross-training staff to ensure that the needed staff resources are always available.

Organizational changes: Previously, the FNS 209 was assigned to a single staff member. Organizational changes include re-distributing workload and cross training staff in order to have a larger staff pool available to prepare the report. Beginning with the quarter ending June 30, 2014, an additional preparer was trained and assumed interim responsibility for the report. In early March 2015, a new staff accountant was recruited who will have primary responsibility for the FNS209. Additional staff accountants assigned to the benefit recovery function also contribute to the FNS 209 by providing monthly collection and refund reports that address the specific information needs of the FNS 209. This process enhancement eliminates the need to re-analyze certain financial transactions during FNS 209 preparation. Although responsibility for the report

**COUNTY OF CONTRA COSTA
SCHEDULE OF COMMENTS AND RESPONSES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2014**

is assigned to an individual staff member, development of the underlying data for the report preparation is now a collaborative effort.

Streamlining Report Preparation: The Fiscal Unit reviewed FNS209 instructions contained in the Fraud Bureau PowerPoint training materials, the Self-Assessment Guide, County Fiscal Letters, and the Food & Nutrition Service instruction set. The goal of the review was to better understand how transactions are to be reported and to resolve any lingering questions that required additional research. As a result of this review, the local instructions were re-written. The new instructions include a process for reporting transactions outside CalWIN, including how to identify open and closed counts, and how to identify transactions related to death, corrections, bankruptcy, write-off, and payments in full for claims not in CalWIN. A process was also implemented for tracking claims that originated outside the collection system that are new to CalWIN in the reporting quarter. The use of Excel tools such as pivot tables and filtering were also incorporated into the reporting process. These advanced techniques are time saving and enable a quicker and more efficient analysis of the data extracts used to compile the reports.

Using the new streamlined report preparation, EHSD was able to complete the FNS209 reports for the quarters ending 6/30/14 and 9/30/14 well before the 30-day required deadline.

The person responsible for this corrective action is Kathy Gallagher, Employment and Human Services Department Director, who can be contacted at kgallagher@co.cccounty.us.

COUNTY OF CONTRA COSTA
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

ID #	Opinion Unit	Financial Statements Line Item/ Account Description	Debit	Credit	Notes/ Impact on F/S
PY 3	GW - Governmental Activities	Beginning Net Position- Governmental Activities	\$ 6,073,981		Reduce beginning net position
	GW - Business Type Activities	Beginning Net Position- Business Type Activities	2,691,679		Reduce beginning net position
		General Government - Salary Expense		\$ 5,932,739	Reduce current year expenses
		Public Protection - Salary Expenses		96,349	Reduce current year expenses
		Public Assistance - Salary Expenses		23,682	Reduce current year expenses
		Education - Salary Expenses		3,933	Reduce current year expenses
		Public Ways and Facilities - Salary Expenses		56	Reduce current year expenses
		Health and Sanitation - Salary Expenses		89	Reduce current year expenses
	GW-Business Type Activities/ County Hospital	County Hospital - Salary Expense		2,655,988	Reduce current year expenses
	GW-Business Type Activities/ HMO Medi-Cal Plan	HMO Medi-Cal Plan - Salary Expense		30,038	Reduce current year expenses
	GW-Business Type Activities/ Other aggregate remaining funds	Airport - Salary Expenses		5,653	Reduce current year expenses
	GW-Business Type Activities/ Other aggregate remaining funds	Salary Expenses		330	Reduce current year expenses
	Other aggregate remaining funds	Fiduciary Administrative and other expenses		16,803	Reduce current year expenses
		<i>To properly restate beginning net position relating to the exclusion of Compensatory Time-off not being part of the County's Compensated Absences liability calculation.</i>			
	PY 7	GW-Business Type Activities/ County Hospital	Charges for services	587,782	
		Beginning Net Position		587,782	Increase beginning net position
		<i>To adjust the Medi-Cal reserve established for FY 2006 to reflect the final settlement due to Medi-Cal identified in FY 2013 but adjusted in FY 2014.</i>			
1	GW-Business Type Activities/ County Hospital	Accounts receivable and accrued revenue	356,609		Increase assets
		Operating Revenue - Charges for Services		356,609	Increase current year revenue
		<i>To record an accrual of DY9 (FY2014) DSRIP revenue that was not recognized in FY 2014.</i>			
2	GW-Business Type Activities/ County Hospital	Unearned Revenue	713,217		Reduce liabilities
		Operating Revenue - Charges for Services		713,217	Increase current year revenue
		<i>To recognize DY8 (FY2013) DSRIP revenue that was improperly recorded as Unearned Revenue.</i>			
3	GW-Business Type Activities/ County Hospital	Accounts receivable and accrued revenue	1,189,375		Increase assets
		Operating Revenue - Charges for Services		1,189,375	Increase current year revenue
		<i>To adjust the Medicare reserve established for FY 2006/2007 and FY 2009/2010 to reflect the final settlement due to Medicare.</i>			
4	GW-Business Type Activities/ County Hospital	Accounts receivable and accrued revenue	7,741,087		Increase assets
		Other noncurrent liabilities		7,741,087	Increase liabilities
		<i>To reclassify the amount due to third party payers from assets to liabilities</i>			
5	GW-Business Type Activities/ County Hospital	Unearned Revenue	50,908,875		Decrease liabilities
		Other noncurrent liabilities		50,908,875	Increase liabilities
		<i>To reclassify the amount due to third party payers from unearned revenue to other liabilities with the GASB 65 implementation</i>			
6	GW-Business Type Activities/ County Hospital	Operating Revenue - Charges for Services	8,005,860		Decrease current year revenue
		Operating Rev. - Use of money and property		7,145,284	Increase current year revenue
		Operating Rev. - Other revenues		860,577	Increase current year revenue
		<i>To reclassify the revenue for use of money and property and other revenue from charges for services</i>			
7	GW-Business Type Activities/ County Hospital	Allowance for bad debts	14,561,524		Increase assets
		Accounts receivable and accrued revenue		14,561,524	Decrease assets
		<i>To reverse accounts receivable from 2nd insurer for individuals under the HMO Medi-Cal and HMO Commercial Plan (Health Plans) and the related allowance for bad debts since the Hospital doesn't expect to collect this accounts receivable.</i>			