

**COUNTY OF PLUMAS,
CALIFORNIA**



**REQUIRED COMMUNICATION AND MANAGEMENT REPORT
FOR THE YEAR ENDED
JUNE 30, 2012**

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COUNTY OF PLUMAS
Required Communication and Management Report
For the Year Ended June 30, 2012

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To the Board of Supervisors and
the Grand Jury
County of Plumas
Quincy, California

In planning and performing our audit of the financial statements of the County of Plumas as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control. We have issued a separate report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards dated March 6, 2013.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 12-FS-01 in the County's internal control to be a material weakness. This finding is presented in the separate report referred to above and also in the Schedule of Findings and Recommendations that accompanies this letter.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiency 12-FS-02 in the County's internal control to be a significant deficiency. This finding is presented in the separate report referred to above and also in the Schedule of Findings and Recommendations that accompanies this letter.

During our audit we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures. We will review the status of these comments during our next audit engagement. These comments and recommendations are presented in the Schedule of Findings and Recommendations that accompanies this letter.

To the Board of Supervisors and
the Grand Jury
County of Plumas
Quincy, California

The County's written response to the findings identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Following this letter, we have included a report on communications as required by auditing standards generally accepted in the United States of America.

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

A handwritten signature in cursive script, appearing to read "Smith & Newell", written in dark ink.

Smith & Newell, CPAs
Yuba City, California
March 6, 2013

COUNTY OF PLUMAS
Required Communication
For the Year Ended June 30, 2012

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the County of Plumas for the year ended June 30, 2012. 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 during the planning of our audit. 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 the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012. We noted no transactions entered into by the government unit 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 are depreciation of capital assets, estimated cost of infrastructure assets, and closure/post-closure liability.

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

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 trivial, and communicate them to the appropriate level of management. Management has agreed to correct all such misstatements. Items identified as material weaknesses and significant deficiencies are identified in the Schedule of Findings and Questioned Costs of the Single Audit Report and also in the Schedule of Findings and Recommendations that accompanies this letter.

COUNTY OF PLUMAS
Required Communication
For the Year Ended June 30, 2012

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.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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.

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

With respect to the supplementary information accompanying the financial statements, 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.

COUNTY OF PLUMAS
Management Report
Schedule of Findings and Recommendations
For the Year Ended June 30, 2012

12-FS-01 Capital Assets Prior Period Adjustment (Material Weakness)

Condition

During our audit we noted that the County recorded a prior period adjustment of \$618,237 in the Solid Waste Planning and Operations fund to correct capital assets that had not been capitalized in prior years.

Cause

The County identified capital assets that had been expensed in prior years that should have been capitalized.

Criteria

The County's Capitalization Policy requires that assets with a cost of more than \$1,500 and an estimated useful life of more than five years be capitalized and depreciated over the asset's estimated useful life.

Effect of Condition

A prior period adjustment of \$618,237 was required to record the cost and accumulated depreciation of the assets, \$1,158,107 and \$539,870 respectively, in the Solid Waste Planning and Operations fund.

Recommendation

We recommend that the County ensure that all capital assets are included on the depreciation schedules and depreciated over their estimated useful lives.

Corrective Action Plan

We will remind departments that a capital outlay account (54XXX) must be used to purchase capital assets. In addition, at year-end the County Auditor's Office will scan non-capital outlay accounts to insure that capital assets have not been expensed.

12-FS-02 Capital Asset Disposals (Significant Deficiency)

Condition

We noted during the current year the Transit fund identified three buses listed on the depreciation schedule that had been disposed of in a prior year.

Cause

The Transit fund did not obtain appropriate authorization and submit it to the Auditor-Controller to remove the assets from the depreciation schedule at the date of disposal.

COUNTY OF PLUMAS
Management Report
Schedule of Findings and Recommendations
For the Year Ended June 30, 2012

12-FS-02 Capital Asset Disposals (Significant Deficiency) (Continued)

Criteria

The County's capital asset policy requires that each department complete a fixed asset change form, have it signed by the department head and submit it to the Auditor-Controller's office when an asset is disposed. In addition, the Auditor-Controller's office sends a listing of fixed assets by department to each department annually and the department is responsible for ensuring that each asset listed is correct and if not to complete the appropriate paperwork for correction.

Effect of Condition

Equipment was disposed of and proper documentation had not been submitted to the Auditor-Controller to have the assets removed from the depreciation schedule.

Recommendation

We recommend that the Transit fund complete the necessary paperwork and submit it to the Board of Supervisors for approval to remove the disposed assets from the depreciation schedule. We further recommend that future capital assets disposals be documented properly and submitted to the Auditor-Controller in a timely manner.

Corrective Action Plan

We will remind departments of the proper County procedure for disposal of capital assets and that they need Board of Supervisors pre-approval of the disposal.

12-MC-01 Lack of Timely Processing (Other Matter)

Condition

At the time of our fieldwork, we noted six disbursements that were paid in excess of 30 days past the invoice date of the vendor billing. This is a repeat of a prior year finding.

Cause

The Auditor staff was not able to perform this function in a timely manner due to the departments not submitting claims for payment to the Auditor's office in a timely manner.

Criteria

Invoices should be processed by both the receiving department and the Auditor in a timely manner.

Effect of Condition

Vendor invoices were not processed and paid within 30 days of the invoice date.

COUNTY OF PLUMAS
Management Report
Schedule of Findings and Recommendations
For the Year Ended June 30, 2012

12-MC-01 Lack of Timely Processing (Other Matter) (Continued)

Recommendation

We recommend that procedures be modified to ensure that invoices are submitted by the County departments to the Auditor for processing and payment in a timely manner.

Corrective Action Plan

We will remind departments to submit the invoices and appropriate support documentation with sufficient time remaining for County Auditor's Office to complete processing within a thirty-day period. County Auditor's Office will work with departments to improve the processing of claims.

12-MC-02 Sheriff Inmate Welfare Reconciliation (Other Matter)

Condition

At the time of our fieldwork, we noted that although the Inmate Trust bank account was being reconciled to the accounting records on a monthly basis the balance held in the account did not appear to be reconciled to an open listing of balances held for each inmate. This is a repeat of a prior year finding.

Cause

The County could not provide a listing of balances held for inmates that reconciled to the bank balance.

Criteria

Good internal control over monies held for inmates requires that the account balance be reconciled to a listing of monies held for each inmate.

Effect of Condition

The risk of errors and/or irregularities occurring and not being detected is increased when monies held in the Inmate Trust bank account are not reconciled to a listing of monies held for each inmate.

Recommendation

We recommend that the Inmate Trust bank account be reconciled to an open listing of balances held for each inmate on a monthly basis. The detail listing of inmate balances should be printed and maintained as an audit trail that this procedure was performed.

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12-MC-02 Sheriff Inmate Welfare Reconciliation (Other Matter) (Continued)

Corrective Action Plan

The department has changed the methodology of reconciling this fund from spreadsheets to reconciling using an accounting software with the jail. The department is working with the County Auditor's Office to improve this reconciliation process and listing of balances for each inmate.

12-MC-03 Compensated Absences (Other Matter)

Condition

During our testing of compensated absences, we noted approximately \$25,202 in negative leave balances included in the County's compensated absences liability as of June 30, 2012. This is a repeat of a prior year finding.

Cause

The County included negative hours in the calculation of its compensated absences liability for various employees.

Criteria

Good internal control over compensated absences leave balances requires that balances be reviewed on a regular basis to determine that leave is not taken in excess of the actual accrued amount for each employee.

Effect of Condition

There was approximately \$25,202 of negative balances included in the compensated absences liability of the County.

Recommendation

We recommend that the County review balances on a regular basis to determine that employees are not using more time than what is accrued.

Corrective Action Plan

We have identified the issue and are working with County Information Technology to resolve the issue.

COUNTY OF PLUMAS
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Schedule of Findings and Recommendations
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12-MC-04 Risk Management - Landfill (Other Matter)

Condition

During our audit we noted the County did not have insurance coverage for the landfill. This is a repeat of a prior year finding.

Cause

The County did not have adequate insurance coverage.

Criteria

Insurance coverage should be maintained in order to minimize the risk of loss.

Effect of Condition

The County is exposed to increased loss without insurance coverage of the landfill.

Recommendation

We recommend that the County maintain insurance coverage for the landfill to minimize the risk of loss.

Corrective Action Plan

The County is currently discussing the feasibility of obtaining this insurance coverage.

12-MC-05 Outside Bank Accounts (Other Matter)

Condition

During our fieldwork we noted that various departments of the County hold bank accounts outside the County Treasury for which the purpose for these accounts is to collect credit card payments. We noted that the County Auditor-Controller's office obtains monthly bank statements and reconciliations on a majority of these accounts, although we noted several accounts that the County Auditor Controller's office had not been obtaining monthly bank statements and reconciliations from the departments and the reconciled balance for one bank account had not been recorded on the general ledger of the County.

Cause

There is an inadequate review of all outside bank accounts.

COUNTY OF PLUMAS
Management Report
Schedule of Findings and Recommendations
For the Year Ended June 30, 2012

12-MC-05 Outside Bank Accounts (Other Matter) (Continued)

Criteria

All bank accounts in the County name and should be recorded on the County general ledger and all outside bank accounts should be reconciled monthly and the information provided to the Auditor-Controller.

Effect of Condition

The risk of errors or irregularities is increased when there are outside bank accounts for which bank statements have not been obtained, and have not been properly recorded on the County's general ledger.

Recommendation

We recommend that all bank accounts be properly recorded on the general ledger and that all outside bank accounts be reconciled monthly and the information provided to the Auditor-Controller.

Corrective Action Plan

All outside bank accounts are properly recorded in the general ledger. We will remind departments that timely reconciled bank accounts and statements must be submitted to the County Auditor's Office each month.

12-MC-06 Tax Sales Trust Reconciliation (Other Matter)

Condition

During our fieldwork we noted the Tax Sales Trust, fund number 5078-10157, had not been reconciled to a detail listing of open trust items.

Cause

The department does not have a detail listing of open trust items to reconcile to the actual amounts held in the trust account.

Criteria

Good internal control over monies held in trust require that the account balance be reconciled to a detail listing of open trust items.

Effect of Condition

The risk of errors or irregularities occurring and not being detected is increased when trust accounts are not reconciled to a detail listing of open trust items.

COUNTY OF PLUMAS
Management Report
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12-MC-06 Tax Sales Trust Reconciliation (Other Matter) (Continued)

Recommendation

We recommend that the Tax Sales Trust, fund number 5078-10157, be reconciled to a detail listing of open trust items at the end of each month.

Corrective Action Plan

We have reconciled the Tax Sales Trust Fund since the auditors were conducting field work. Funds will be distributed in May, 2013. A spreadsheet is maintained with a listing of open trust items until the monies are distributed.

12-MC-07 Animal Control (Other Matter)

Condition

At the time of our fieldwork we noted that even though the Animal Control department is not authorized to accept cash, the department still accepts cash and an employee writes a personal check to cover the amount of cash received, deposits the personal check with department deposit, and takes the cash.

Cause

There is a lack of controls within the Animal Control department and policies and procedures are not being followed by department employees.

Criteria

Good internal control requires proper cash handling procedures.

Effect of Condition

The risk of errors or irregularities is increased when policies and procedures are not being followed by department employees.

Recommendation

We recommend that policies and procedures of the County be followed by all department employees.

Corrective Action Plan

We will remind the department to follow the County policies and procedures for cash handling.

COUNTY OF PLUMAS
Management Report
Status of Prior Year Recommendations
For the Year Ended June 30 2012

<u>Audit Reference</u>	<u>Status of Prior Year Recommendations</u>
11-MC-01	Lack of Timely Processing Recommendation We recommend that procedures be modified to ensure that invoices are submitted by the County departments to the Auditor for processing and payment in a timely manner. Status Not Implemented
11-MC-02	Sheriff Inmate Welfare Reconciliation Recommendation We recommend that the Inmate Trust bank account be reconciled to an open listing of balances held for each inmate on a monthly basis. The detail listing of inmate balances should be printed and maintained as an audit trail that this procedure was performed. Status Not Implemented
11-MC-03	Treasurer - Travel Advances Recommendation We recommend that the Treasurer follow up on travel advances that have not been reimbursed in a timely manner and require the reimbursement within 4 days of the advance. Status Implemented

COUNTY OF PLUMAS
Management Report
Status of Prior Year Recommendations
For the Year Ended June 30 2012

Audit Reference

Status of Prior Year Recommendations

11-MC-04

Compensated Absences

Recommendation

We recommend that the County review balances on a regular basis to determine that employees are not using more time than what is accrued.

Status

Not Implemented

11-MC-05

Risk Management - Landfill

Recommendation

We recommend that the County maintain insurance coverage for the landfill to minimize the risk of loss.

Status

Not Implemented

11-MC-06

Inventory

Recommendation

We recommend that an actual physical inventory count be completed for all inventory items and reconciled to the perpetual inventory tracking records. In addition the calculation of the cost of inventory items should be reviewed to verify that the extended values are correct.

Status

Implemented

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