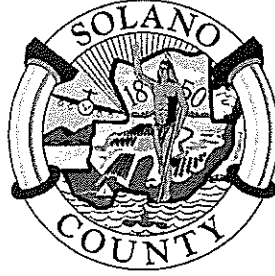


OFFICE OF THE AUDITOR-CONTROLLER

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RECEIVED

AUG 25 2014

SOLANO COUNTY  
GRAND JURY

August 18, 2014

The Honorable E. Bradley Nelson  
Hall of Justice  
Department 4, Room 306  
600 Union Avenue  
Fairfield, CA 94533

*Re: Auditor-Controller's Response to 2013-2014 Grand Jury Report: Fund 173—As Clear As Mud*

Honorable Judge Nelson:

I am responding to the 2013-2014 Grand Jury Report: Fund 173 – As Clear as Mud.

I appreciate the Grand Jury's report. However, I disagree with some of the information presented in the statement of facts section of the report. The following are the specific areas of disagreement:

*Page 4, paragraph 3 – Under the 1999 Joint Powers Agreement (JPA) the Solano County Auditor-Controller is designated as the Treasurer/Auditor of the JPA. Article II of the 1999 JPA states:*

*Pursuant to Sections 6505.5 and 6505.6 of the Act, the treasurer of one of the cities, or the county treasurer or a certified public accountant shall be designated by the Board as the Treasurer/Auditor of the Consortium.*

In reviewing the 1999 Joint Powers Agreement (JPA), I found no designation of the Auditor-Controller as the Treasurer/Auditor of the JPA. In addition, the JPA has consistently hired an independent Certified Public Accountant to conduct the annual audits of the JPA. Audits for the fiscal years ending June 30 2005 through fiscal year ended June 30, 2011 were conducted by Stevan H. Treon, Certified Public Accountant. Audits for the fiscal years ending June 30, 2012 and June 30, 2013 were conducted by Goranson and Associates, Inc.

*Page 4, paragraph 4—In 2001, Fund 173 was established by the ACO to assist with cash flow delays that are inherent with grant disbursements (HUD & CSBG)*

Fund 173 JPA-Solano Safety Net Consortium was established by the Auditor-Controller on April 3, 2003. On June 10, 2003 the Solano County Board of Supervisors authorized the Auditor to advance funds to the Consortium as needed to provide adequate working capital when the cash in Fund 173 was in a deficit cash balance due to delays between payment for services and the claiming and receiving payments from State and Federal Agencies.

*Page 8, paragraph 2—Near the end of FY 2011-2012, the ACO informed H&SS that CAP of Solano-JPA's operating fund was in a cash deficit situation which had accumulated over ten (10) years.*

The Auditor's Office has e-mails communicating the cash deficit status to PJ Davis dating back to July 13, 2007. (See the attached for the communication timeline.) On June 10, 2003 the Board of Supervisors authorized the Auditor-Controller to provide working capital coverage when fund 173 was in a cash deficit. The Auditor-Controller on various occasions stopped paying claims until the JPA provided the sources for the repayment, which were the Accounts Receivable due from HUD and other agencies.

*Page 8, paragraph 4—The Solano County Auditor-Controller is the treasurer for the CAP of Solano—JPA and has the fiduciary responsibility to ensure that grant funds are properly dispersed and accounted for.*

Article II, section (4) of the JPA, provides in part, "Pursuant to Sections 6505.5 and 6505.6 of the Act, the treasurer of one of the cities or the county treasurer or a certified public accountant shall be designated by the Board as the Treasurer /Auditor of the Consortium." The Auditor-Controller was not designated as the Treasurer/Auditor of the Consortium.

*Page 9, paragraph 2—Looking at Figures 1,2,3, and 4, it is apparent the Auditor-Controller, the Health and Social Services Department Head, the CAP of Solano-JPA Board, the Executive Director of the JPA, the CAP of Solano Inc. Board, and the Executive Director of CAP of Solano Inc. failed to meet the minimums required to carry out their management responsibilities.*

The CAP Solano- JPA is an independent outside agency from Solano County and is therefore not under the control of the Board of Supervisors. The JPA is governed by an independent governing board. As such this entity is not under the control and oversight of the Auditor-Controller. The duties of the Auditor-Controller are limited to those outlined in the service agreement between the Auditor-Controller and the CAP Solano JPA signed on May 18, 2009.

*Page 13, The Auditor/Controller has failed in its fiduciary responsibilities to provide yearly audited accounts of Fund 173 to the H&SS and JPA as required by the Joint Exercise of Powers Agreement, Solano Safety Net Consortium. These annual audits have not taken place from 2003 to present.*

The Auditor-Controller has not failed in its fiduciary responsibilities to provide yearly audited accounts of Fund 173 as required by the JPA. As previously stated, the JPA did not designate this responsibility to the Auditor-Controller. Independent certified public accountants conducted the annual audits from June 30, 2005 through June 30, 2013.

Comment: Unfortunately, neither I nor any member of my staff were contacted to discuss or to answer any questions, which resulted in the reporting of several inaccuracies. I respectfully recommend that to minimize inaccuracies or miscommunications in the future, the Grand Jury discuss the contents of a draft report with the respective appointed or elected department head before the report is released to the public.

Pursuant to Penal Code Section 933(c) and 933.05, I am responding to the following findings and recommendations that pertain to matters under my control as the Auditor-Controller.

**Finding and Recommendation # 3.** This matter is not under the control of the Auditor-Controller. The Auditor-Controller performs all of our services in accordance with the Government Accounting and Auditing Standards.

**Finding 8:** A significant under-reporting of income (\$85,949) for FY 2012 by Community Action Partnership of Solano, Inc. exists according to their own audit.

Response to Finding 8: I disagree wholly with this finding. After reviewing the independent audit for the fiscal year ending June 30, 2012, my office was unable to validate the under-reporting of income in the amount of \$85,949.

Response to Recommendation 8: This recommendation will not be implemented. My office conducted an independent review of the audit and was unable to validate the under-reporting of income in the amount of \$85,949.

**Finding 11:** Recordkeeping by Contractors and Subcontractors receiving Grant Funds is an ongoing issue. Lack of appropriate records contributed to the outstanding deficit and its resolution.

Response to Finding 11: This matter is not under the control of the Auditor-Controller. However, the County's standardized contractual General Terms and Conditions for non-profit organizations addresses this issue, as set forth below:

**12. RESPONSIBILITIES OF CONTRACTOR**

A. The parties understand and agree that Contractor possesses the requisite skills necessary to perform the work under this Contract and County relies upon such skills. Contractor pledges to perform the work skillfully and professionally. County's acceptance of Contractor's work does not constitute a release of Contractor from professional responsibility.

B. Contractor verifies that Contractor has reviewed the scope of work to be performed under this Contract and agrees that in Contractor's professional judgment, the work can and shall be completed for costs within the maximum amount set forth in this Contract.

C. To fully comply with the terms and conditions of this Contract, Contractor shall:

- Establish and maintain a system of accounts for budgeted funds that complies with generally accepted accounting principles for government agencies;
- Document all costs by maintaining complete and accurate records of all financial transactions associated with this Contract, including, but not limited to, invoices and other official documentation that sufficiently support all charges under this Contract;
- Submit monthly reimbursement claims for expenditures that directly benefit Solano County;
- Be liable for repayment of any disallowed costs identified through quarterly reports, audits, monitoring or other sources; and
- Retain financial, programmatic, client data and other service records for 3 years from the date of the end of the contract award or for 3 years from the date of termination, whichever is later.

**Recommendation 11:** All Solano County departments receiving grant funds modify contracts with Contractors and Subcontractors to include language that all required documentation be available both

on paper and digitally for a period of no less than three years after notification that the Grant Funding has received its final audit.

Response to Recommendation 11: The recommendation will not be implemented because it is not warranted as the County already includes such provisions in Section 12 of its standardized General Terms and Conditions as set forth above.

Respectfully,

  
Simona Padilla-Scholtens, CPA  
Auditor-Controller