
**COUNTY OF SUTTER, CALIFORNIA
SINGLE AUDIT ACT
REPORTS AND SCHEDULES
FOR THE YEAR ENDED
JUNE 30, 2004**

**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, 2004**

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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, 2004. 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, 2004. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 04-2.

Internal Control Over Compliance

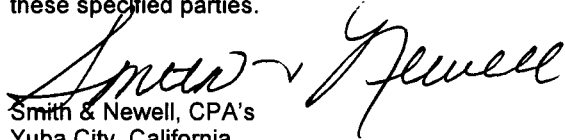
The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with 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.

Our consideration of the internal controls over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

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 as of and for the year ended June 30, 2004, and have issued our report thereon dated December 3, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County of Sutter, California's basic financial statements. 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, others within the organization, Board of Supervisors, and Federal awarding agencies 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".

Smith & Newell, CPA's
Yuba City, California
December 3, 2004

COUNTY OF SUTTER, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

<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	-	\$ 4,359,925
State Administrative Matching Grants for Food Stamp Program	10.561	-	401,362
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	-	<u>483,295</u>
Total U.S. Department of Agriculture			<u>5,244,582</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	95-EDBG-389	820
Community Development Block Grants/State's Program	14.228	00-EDBG-767	362,589
Community Development Block Grants/State's Program	14.228	01-EDBG-828	<u>356,938</u>
Total Department of Housing and Urban Development			<u>720,347</u>
<u>U.S. Department of Justice</u>			
Passed through State Office of Criminal Justice Planning:			
Juvenile Accountability Incentive Block Grants	16.523	IP-02010510	30,295
Byrne Formula Grant Program	16.579	VW-03170510	9,675
Byrne Formula Grant Program	16.579	VW-033Q0510	47,386
Byrne Formula Grant Program	16.579	DC-03160510	53,345
Byrne Formula Grant Program	16.579	DC-033Q0510	<u>160,033</u>
Subtotal 16.579			<u>270,439</u>
Local Law Enforcement Block Grants Program	16.592	-	<u>19,057</u>
Total U.S. Department of Justice			<u>319,791</u>
<u>U.S. Department of Transportation</u>			
Passed through State Department of Transportation			
Highway Planning and Construction	20.205	BRLO-5918 (046)	613,537
Highway Planning and Construction	20.205	BRLO-5918 (017)	227,292
Highway Planning and Construction	20.205	BRLO-5918 (020)	3,806
Highway Planning and Construction	20.205	BRLO-5918 (031)	319,759
Highway Planning and Construction	20.205	BRLO-5918 (032)	79,530
Highway Planning and Construction	20.205	BRLO-5918 (052)	9,774
Highway Planning and Construction	20.205	BRLS-5918 (056)	21,084
Highway Planning and Construction	20.205	BRLS-5918 (012)	4,716
Highway Planning and Construction	20.205	BRLS-5918 (034)	4,466
Highway Planning and Construction	20.205	STPLX-5918 (042)	202,548
Highway Planning and Construction	20.205	STPLX-5918 (035)	<u>63,569</u>
Total U.S. Department of Transportation			<u>1,550,081</u>
<u>U.S. Department of Defense</u>			
Direct Program:			
Payments to States in Lieu of Real Estate Taxes	12.112	-	<u>6,835</u>
Total U.S. Department of Defense			<u>6,835</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, 2004

<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 Health and Human Services</u>			
Passed through State Department of Social Services:			
Promoting Safe and Stable Families	93.556	-	107,854
Temporary Assistance for Needy Families	93.558	-	6,011,037
Child Support Enforcement	93.563	-	2,020,594
Child Welfare Services - State Grants	93.645	-	49,125
Foster Care - Title IV-E	93.658	-	3,279,155
Adoption Assistance	93.659	-	768,356
Social Services Block Grant	93.667	-	83,281
Chafee Foster Care Independent Living	93.674	-	60,615
Passed through State Department of Health Services:			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	-	6,896
State Children's Insurance Program	93.767	CCS	52,114
Maternal and Child Health Services Block Grant to the States	93.994	MCH	90,991
Maternal and Child Health Services Block Grant to the States	93.994	CHDP	65,222
Subtotal 93.994			<u>156,213</u>
Bioterrorism Training and Curriculum Development Program	93.996	-	67,729
Medical Assistance Program	93.778	TCM	108,085
Medical Assistance Program	93.778	Title XIX	26,735
Medical Assistance Program	93.778	MAA	67,982
Subtotal 93.778			<u>202,802</u>
Passed through State Department of Mental Health Services:			
Block Grants for Community Mental Health Services	93.958	SAMSHA	327,368
Projects for Assistance in Transition from Homelessness	93.150	PATH	28,857
Passed through State Department of Alcohol and Drug Programs:			
Block Grant for Prevention and Treatment of Substance Abuse	93.959	SAPT	1,269,131
Total Department of Health and Human Services			<u>14,491,127</u>
<u>U.S. Department of Education</u>			
Passed through State Adult Education Office:			
Adult Education State Grant Program	84.002	-	158,986
Total U.S. Department of Education			<u>158,986</u>
Total			<u>\$ 22,491,749</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

COUNTY OF SUTTER, CALIFORNIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2004

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 general purpose 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 prepared on a basis other than that used to record transactions in the accounting records and as reported in the general purpose financial statements. 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.

3. PHYSICAL COUNT OF FOOD STAMPS

A physical count of the food stamp inventory was conducted. The count was reconciled to the inventory stated on the FNS-250.

4. OFFICE OF CRIMINAL JUSTICE PLANNING DISCLOSURES FOR FEDERAL GRANTS

The following represents expenditures for the Byrne Formula Grant Program (CFDA Number 16.579):

	<u>Budget</u>	<u>Current Year Actual</u>	<u>Current year Match</u>	<u>Current Year Total</u>	<u>Variance</u>
DC 03 160510					
Personal services	\$ 53,345	\$ 53,345	\$ -	\$ 53,345	\$ -
Operating expense	-	-	-	-	-
Equipment	-	-	-	-	-
Total	<u>\$ 53,345</u>	<u>\$ 53,345</u>	<u>\$ -</u>	<u>\$ 53,345</u>	<u>\$ -</u>

	<u>Budget</u>	<u>Current Year Actual</u>	<u>Current year Match</u>	<u>Current Year Total</u>	<u>Variance</u>
DC 03 3Q0510					
Personal services	\$ 160,033	\$ 160,033	\$ -	\$ 160,033	\$ -
Operating Expense	-	-	-	-	-
Equipment	-	-	-	-	-
Total	<u>\$ 160,033</u>	<u>\$ 160,033</u>	<u>\$ -</u>	<u>\$ 160,033</u>	<u>\$ -</u>

	<u>Budget</u>	<u>Current Year Federal</u>	<u>Current year State</u>	<u>Current Year Total</u>	<u>Variance</u>
VW 03 170510					
Personal services	\$ 23,092	\$ 8,775	\$ 14,317	\$ 23,092	\$ -
Operating expense	2,542	900	1,642	2,542	-
Equipment	-	-	-	-	-
Total	<u>\$ 25,634</u>	<u>\$ 9,675</u>	<u>\$ 15,959</u>	<u>\$ 25,634</u>	<u>\$ -</u>

	<u>Budget</u>	<u>Current Year Federal</u>	<u>Current year State</u>	<u>Current Year Total</u>	<u>Variance</u>
VW 03 3Q0510					
Personal services	\$ 81,104	\$ 37,308	\$ 43,796	\$ 81,104	\$ -
Operating expense	22,584	10,078	12,506	22,584	-
Equipment	-	-	-	-	-
Total	<u>\$ 103,688</u>	<u>\$ 47,386</u>	<u>\$ 56,302</u>	<u>\$ 103,688</u>	<u>\$ -</u>

COUNTY OF SUTTER, CALIFORNIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2004

4. OFFICE OF CRIMINAL JUSTICE PLANNING DISCLOSURES FOR FEDERAL GRANTS (CONTINUED)

The following represents expenditures for the Juvenile Accountability Incentive Block Grant (CFDA Number 16.523):

	<u>Budget</u>	<u>Current Year Federal</u>	<u>Current Year State</u>	<u>Current Year Total</u>	<u>Variance</u>
IP 02 010510					
Personal services	\$ 33,662	\$ 30,295	\$ 3,367	\$ 33,662	\$ -
Operating expense	-	-	-	-	-
Equipment	-	-	-	-	-
Total	<u>\$ 33,662</u>	<u>\$ 30,295</u>	<u>\$ 3,367</u>	<u>\$ 33,662</u>	<u>\$ -</u>

The following represents expenditures for the State Office of Criminal Justice Planning programs:

	<u>Budget</u>	<u>Current Year Actual</u>	<u>Current Year Match</u>	<u>Current Year Total</u>	<u>Variance</u>
VB 03 010510					
Personal services	\$ 53,149	\$ 53,149	\$ -	\$ 53,149	\$ -
Operating expense	-	-	-	-	-
Equipment	-	-	-	-	-
Total	<u>\$ 53,149</u>	<u>\$ 53,149</u>	<u>\$ -</u>	<u>\$ 53,149</u>	<u>\$ -</u>

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

	<u>Budget</u>	<u>Current Year Actual</u>	<u>Current Year Match</u>	<u>Current Year Total</u>	<u>Variance</u>
03SA10D046					
Personal Services	\$ 39,913	\$ 33,261	\$ 6,652	\$ 39,913	\$ -
Operating Expense	-	-	-	-	-
Equipment	-	-	-	-	-
Total	<u>\$ 39,913</u>	<u>\$ 33,261</u>	<u>\$ 6,652</u>	<u>\$ 39,913</u>	<u>\$ -</u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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 basic financial statements of the County of Sutter, California (County), as of and for the year ended June 30, 2004, and have issued our report thereon dated December 3, 2004. 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.

Compliance

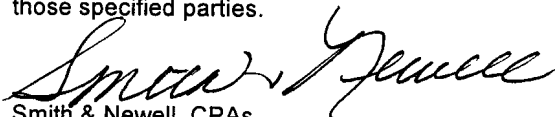
As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect County of Sutter's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the County in a separate report dated December 3, 2004.

This report is intended solely for the information and use of management, others within the organization, 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, CPAs
Yuba City, California
December 3, 2004

COUNTY OF SUTTER, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30 2004

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 and III
3. Disclosure or 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) - None
7. Major programs are as follows: 14.228, 93.558, 93.563 and 93.959
8. \$674,752 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

04-1 INACCURACIES NOTED IN FINANCIAL RECORDS

Condition

In the process of conducting the audit for the June 30, 2004 financial statements, we noted the unadjusted general ledger as presented to us for audit contained material misstatements. In order to issue an unqualified audit opinion on the financial statements, we were required to write numerous adjustments because of incorrect recording of current year activity as well as prior year audit entries which had not been recorded by the Auditor Controller.

Criteria

Government auditing standards require independent auditors to evaluate unadjusted misstatements of financial statements and to make a determination of whether the net unadjusted audit differences cause the financial statements to be materially misstated.

Effect of Condition

The unadjusted financial statements contained materially misstated account balances and activity.

Recommendation

We recommend that all proposed audit adjustments as agreed to by the Auditor Controller be recorded in the primary accounting records of the County. We also recommend that the Auditor Controller review policies regarding adjustments or activity recorded direct to fund equity.

COUNTY OF SUTTER, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30 2004

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

04-2 LOANS RECEIVABLE

Condition

During our audit we noted approximately \$300,000 in CDBG loans receivable from prior years that were not recorded on the County's general ledger. We also noted payments received on other loans that had not been recorded on the County's general ledger and for which no information was available. In addition, we noted current year activity posted direct to fund balance.

Criteria

Good accounting control requires that all loans owed the County be recorded on the County's general ledger and that payments received be properly recorded.

Effect of Condition

CDBG loans receivable were not accurately reflected on the County general ledger. In addition, when loans are not recorded on the general ledger there is no way to verify that proper monitoring of loan requirements has occurred.

Recommendation

We recommend that the County contact the service providers that have been used in the past for loan processing and obtain copies of the loan documentation so that all loans receivable can be identified and recorded on the County's general ledger. We further recommend that loan activity be correctly recorded during the year.

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