
**COUNTY OF SUTTER, CALIFORNIA
SINGLE AUDIT ACT
REPORTS AND SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2005**

RECEIVED
SUTTER COUNTY
AUDITOR
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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, 2005**

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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, 2005. 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, 2005. 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 05-2.

Internal Control Over Compliance

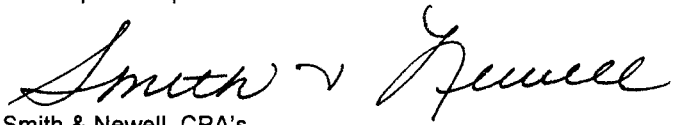
The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance 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 control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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, 2005, and have issued our report thereon dated February 17, 2006. Our audit was performed for the purpose of forming opinions on the 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, 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 that reads "Smith & Newell". The signature is written in black ink and is positioned above the typed text.

Smith & Newell, CPA's
Yuba City, California
February 17, 2006

COUNTY OF SUTTER, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

<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	-	\$ 5,756,094
State Administrative Matching Grants for Food Stamp Program	10.561	-	491,101
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	-	<u>580,182</u>
Total U.S. Department of Agriculture			<u>6,827,377</u>
<u>U.S. Department of Justice</u>			
Passed through State Office of Criminal Justice Planning:			
Juvenile Accountability Incentive Block Grants	16.523	BDC 133-04	16,698
Juvenile Accountability Incentive Block Grants	16.523	BDC 244.04	<u>10,000</u>
Subtotal 16.523			<u>26,698</u>
Byrne Formula Grant Program	16.579	VW 04180510	56,169
Byrne Formula Grant Program	16.579	DC 04170510	<u>216,776</u>
Subtotal 16.579			<u>272,945</u>
Total U.S. Department of Justice			<u>299,643</u>
<u>U.S. Department of Transportation</u>			
Passed through Federal Aviation Administration			
Airport Improvement Program	20.106	AIP 3-060-28202	35,000
Passed through State Department of Transportation			
Highway Planning and Construction	20.205	BRLO-5918 (020)	5,401
Highway Planning and Construction	20.205	BRLO-5918 (031)	1,527
Highway Planning and Construction	20.205	BRLO-5918 (032)	45,332
Highway Planning and Construction	20.205	BRLO-5918 (052)	6,873
Highway Planning and Construction	20.205	BRLO-5918 (056)	19,910
Highway Planning and Construction	20.205	BRLS-5918 (012)	23,384
Highway Planning and Construction	20.205	BRLS-5918 (034)	<u>11,915</u>
Subtotal 20.205			<u>114,342</u>
Total U.S. Department of Transportation			<u>149,342</u>
<u>U.S. Department of Defense</u>			
Direct Program:			
Payments to States in Lieu of Real Estate Taxes	12.112	-	<u>7,068</u>
Total U.S. Department of Defense			<u>7,068</u>
<u>U.S. Department of Education</u>			
Passed through State Adult Education Office:			
Adult Education State Grant Program	84.002	-	<u>151,445</u>
Total U.S. Department of Education			<u>151,445</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, 2005

Federal Program/Pass Through Program Title	CFDA Number	Federal Pass-Through Grantor Number	Disbursements/ Expenditures
<u>U.S. Department of Health and Human Services</u>			
Passed through State Department of Social Services:			
Promoting Safe and Stable Families	93.556	-	130,564
Temporary Assistance for Needy Families	93.558	-	6,431,355
Child Support Enforcement	93.563	-	1,950,900
Child Welfare Services - State Grants	93.645	-	59,828
Foster Care - Title IV-E	93.658	-	2,262,778
Adoption Assistance	93.659	-	863,770
Social Services Block Grant	93.667	-	99,586
Chafee Foster Care Independent Living	93.674	-	60,153
Passed through State Department of Health Services:			
State Children's Insurance Program	93.767	CCS	103,358
Maternal and Child Health Services Block Grant to the States	93.994	MCH	119,746
Maternal and Child Health Services Block Grant to the States	93.994	CHDP	93,511
Subtotal 93.994			213,257
Bioterrorism Training and Curriculum Development Program	93.996	-	191,339
Medical Assistance Program	93.778	TCM	45,837
Medical Assistance Program	93.778	Title XIX	46,862
Medical Assistance Program	93.778	MAA	91,652
Subtotal 93.778			184,351
Passed through State Department of Mental Health Services:			
Block Grants for Community Mental Health Services	93.958	SAMSHA	330,108
Projects for Assistance in Transition from Homelessness	93.150	PATH	43,601
Passed through State Department of Alcohol and Drug Programs:			
Block Grant for Prevention and Treatment of Substance Abuse	93.959	SAPT	1,054,468
Total Department of Health and Human Services			13,979,416
<u>U.S. Department of Homeland Security</u>			
Passed through Governor's Office of Emergency Services			
State Domestic Preparedness Equipment Support Program	97.004	2003-167	18,898
State Domestic Preparedness Equipment Support Program	97.004	2002-133	1,303
State Domestic Preparedness Equipment Support Program	97.004	2003-35	217,484
Subtotal 97.004			237,685
Emergency Management Preparedness Grants	97.042	EMF-2004-GR-0402	31,914
State and Local All Hazards Emergency Operations Planning	97.051	2003-31	78,729
State Homeland Security Program	97.073	2004-45	256,040
Law Enforcement Terrorism Preventions	97.074	2004-45	74,529
Total U.S. Department of Homeland Security			678,897
Total			\$ 22,093,188

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, 2005

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

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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, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 17, 2006. 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

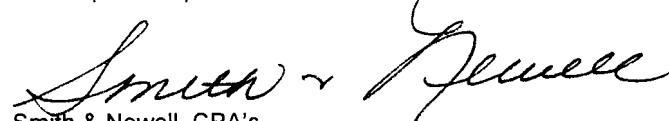
In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 judgement, 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 05-1.

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 functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control which 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 February 17, 2006.

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 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.

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, CPA's
Yuba City, California
February 17, 2006

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COUNTY OF SUTTER, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30 2005

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: 10.551, 10.561, 93.558, 93.658, 93.659
8. \$662,796 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? - No

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

05-01 POLICIES AND PROCEDURES

Condition

We noted that the County does not have updated written procedures for performing many of the current financial processes. Lack of written procedures has contributed to significant operating difficulties within the County.

A transfer from reserves was authorized by the Board of Supervisors however, the exact account number was not specified. The Auditor Controller's department incorrectly moved the money from the general reserve which was a violation of State Government Code. If written policy required identification of specific account number before transfer of reserves, this problem may have been avoided.

As has been the practice in previous years, in October 2005, the County Administrative Office requested that excess transfers from the General fund to Health, Welfare, Trial Court and Public Safety be returned to the General fund with an effective date of June 30, 2005. The Auditor Controller refused to make the adjustment with the requested effective date which resulted in errors in beginning fund balances for budget purposes. If written policy existed which stated that this was a standard year end adjustment this problem may also have been avoided.

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 and that adjustments be recorded in a timely manner in the appropriate year.

COUNTY OF SUTTER, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30 2005

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

05-02 LOANS RECEIVABLE

Condition

During our audit we noted approximately \$230,000 in CDBG Loans receivable from prior years that were not recorded on the County's general ledger. We also noted that the County had not adjusted the various loans receivable balances to the actual amounts receivable at June 30, 2005.

Criteria

Good internal control requires that all loans owed the County be recorded on the County's general ledger and that the balances be adjusted to actual amounts receivable at June 30, 2005.

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 loan activity be correctly recorded during the year.

COUNTY OF SUTTER, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30 2005

Prior Year Recommendations related to the financial statements which are required to be reported in accordance with GAGAS

Status

04-1 INACCURACIES NOTED IN FINANCIAL STATEMENTS

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.

Implemented

04-2 LOANS RECEIVABLE

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.

Not Implemented

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