

COUNTY OF SAN BENITO
SINGLE AUDIT REPORT FOR THE
YEAR ENDED JUNE 30, 2016



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**INDEPENDENT AUDITOR'S 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**

Honorable Grand Jury and Board of Supervisors
County of San Benito
Hollister, California

We have audited, in accordance with the 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, 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 San Benito (County), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 28, 2017. Our audit includes a reference to other auditors who audited the financial statements of First 5 San Benito, a discretely presented component unit, as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the 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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. During our audit, we identified certain deficiencies in internal control over financial reports, as described as items 2016-001 through 2016-007, in the accompanying schedule of findings and questions costs that we consider to be material weaknesses.



Honorable Grand Jury and Board of Supervisors
County of San Benito

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

County of San Benito's Responses to Findings

The County of San Benito's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County of San Benito's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Roseville, California
March 28, 2017



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Grand Jury and Board of Supervisors
County of San Benito

Report on Compliance for Each Major Federal Program

We have audited County of San Benito’s (County) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. 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.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the County’s major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County’s compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Honorable Grand Jury and Board of Supervisors
County of San Benito

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, as of and for the year ended June 30, 2016, and have issued our report thereon dated March 28, 2017, that contained an unmodified opinion on those financial statements. We did not audit the financial statements of First 5 San Benito, a discretely presented component unit. Those statements were audited by other auditors whose reports have been furnished to us, and in our opinion, insofar as it relates to the amounts included for First 5 San Benito, is based solely on the reports of the other auditors. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

Roseville, California
March 28, 2017

COUNTY OF SAN BENITO

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
<u>U.S. Department of Agriculture</u>				
Passed through State Department of Food & Agriculture:				
Asian Citrus Psyllid (ACP)	10.025	15-8506-1211-CA 14-0434	\$ 8,657	\$ --
Asian Citrus Psyllid (ACP)	10.025	16-8506-1121-CA	62,075	--
Pierce's Disease/GWSS	10.025	14-8506-0484-CA 14-0433	7,977	--
Light Brown Apple Moth	10.025	14-8506-1164-CA 14-0435	2,366	--
Light Brown Apple Moth	10.025	15-8506-1164-CA	2,536	--
Pest Detection	10.025	14-8506-1399-CA	13,168	--
Pest Detection	10.025	15-8506-1399-CA	16,212	--
Subtotal CFDA Number 10.025			112,991	--
Total U.S. Department of Agriculture			\$ 112,991	\$ --
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
Helping Hands	14.267	CA1072L9T061402	247,857	--
Passed through State Department of Housing and Community Development:				
Community Development Block Grant/State Program	14.228	13-CDBG-9712	435	--
Community Development Block Grant/State Program	14.228	13-CDRA-9712	975	--
Community Development Block Grant/State Program	14.228	14-CDBG-9898	21,934	--
Community Development Block Grant/State Program	14.228	14-CDBG-9898	783,949	--
Subtotal CFDA Number 14.228			807,293	--
HOME Investment Partnership Program	14.239		1,046,281	--
Passed through City of San Jose:				
HOPWA	14.451	HOP-15-002	7,321	--
Total U.S. Department of Housing and Urban Development			\$ 2,108,752	\$ --
<u>U.S. Department of Justice</u>				
Direct Programs:				
Domestic Cannabis Eradication/Suppression Program	16.111	2015-46	22,190	--
Domestic Cannabis Eradication/Suppression Program	16.111	2015-41	4,183	--
Subtotal CFDA Number 16.111			26,373	--
State Criminal Alien Assistance Program (SCAAP)	16.606		33,181	--
Passed through State Office of Emergency Services:				
Crime Victim Assistance (VOCA)	16.575	VW15 32 0350	86,852	--
Passed through Board of State and Community Corrections:				
Justice Assistance Grant	16.738	BSCC 637-14	133,369	--
Justice Assistance Grant	16.738	BSCC 637-15	118,764	--
Subtotal CFDA Number 16.738			252,133	--
Total U.S. Department of Justice			\$ 398,539	\$ --

See accompanying notes to Schedule of Expenditures of Federal Awards

COUNTY OF SAN BENITO

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
<u>U.S. Department of Labor</u>				
Passed through State Employment Department:				
WIA - Adult	17.258	K698385/Code201	15,192	--
WIA - Adult	17.258	K594784/Code202	47,895	--
WIA - Adult	17.258	K698385/Code201	166,417	--
WIA - Youth	17.259	K594784/Code301	15,620	--
WIA - Youth	17.259	K698385/Code301	152,976	--
WIA - Dislocated Worker	17.278	K698385/Code501	37,578	--
WIA - Dislocated Worker	17.278	K594784/Code502	10,675	--
WIA - Dislocated Worker	17.278	K698385/Code502	155,836	--
WIA - Rapid Response	17.278	K698385/Code540	15,991	--
WIA - Rapid Response	17.278	K594784/Code541	1,734	--
WIA - Rapid Response	17.278	K698385/Code541	81,133	--
WIA - Layoff Aversion	17.278	K594784/Code292 & 293	22,000	--
Total - Workforce Investment Act Cluster			723,047	--
Total U.S. Department of Labor			\$ 723,047	\$ --
<u>U.S. Department of Transportation</u>				
Passed through State Department of Transportation:				
Highway Planning and Construction	20.205	BRLO-5943(054)	3,162	--
Highway Planning and Construction	20.205	BRLS-5943(062)	29,012	--
Highway Planning and Construction	20.205	BRLO-NBIL(055)	7,005	--
Highway Planning and Construction	20.205	BRLO-NBIL(531)	93,907	--
Highway Planning and Construction	20.205	BRLS-5943(043)	245,800	--
Highway Planning and Construction	20.205	BRLS-5943(056)	48,642	--
Highway Planning and Construction	20.205	BRLO-5943(063)	47,880	--
Highway Planning and Construction	20.205	STPIX-5943(057)	1,407	--
Subtotal CFDA Number 20.205			476,815	--
Total U.S. Department of Transportation			\$ 476,815	\$ --
<u>U.S. Election Assistance Commission</u>				
Passed through State Secretary of State:				
Help America Vote Act (HAVA)	90.401	13G30338	8,119	--
Total U.S. Election Assistance Commission			\$ 8,119	\$ --
<u>U.S. Department of Health and Human Services</u>				
Passed through California Secretary of State:				
Voting Access for Individuals with Disabilities State Grants	93.617		20,000	--
Passed through State Department of Social Services:				
Preservation of Safe and Stable Families	93.556		46,834	--
Temporary Assistance for Needy Families	93.558		998,774	--
CalWorks	93.558		2,665,578	--
Child Welfare	93.558		242,636	--
Subtotal CFDA Number 93.558			3,906,988	--
Child Welfare - State Grants	93.645		51,720	--
Foster Care - Title IV-E	93.658		280,067	--
Child Welfare Service	93.658		543,427	--
Foster Care Administration	93.658		20,550	--
CCL - Foster Family Homes	93.658		5,435	--
Subtotal CFDA Number 93.658			849,479	--
Adoption Assistance	93.659		637,144	--
Independent Living	93.674		22,220	--
Subtotal			659,364	--

See accompanying notes to Schedule of Expenditures of Federal Awards

COUNTY OF SAN BENITO

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
Passed through State Department of Public Health:				
CDC Public Health Emergency Preparedness (PHEP)	93.069	14-10533 A01	78,878	--
Cities Readiness Initiative (CRI)	93.074	14-10533 A01	11,909	--
Hospital Preparedness Program (HPP)	93.889	14-10533 A01	141,438	--
Tuberculosis Prevention	93.116	1U52PS004656	1,514	--
Immunization Assistance Program	93.268	15-10444	33,870	--
Maternal, Child, and Adolescent Health	93.994	201535	206,539	--
Adolescent Family Life Program	93.995	201535	57,816	--
Subtotal			531,964	--
Passed through State Department of Health Care Services:				
California Children's Services (CCS)	93.767		77,070	--
California Health and Disability Prevention (CHDP)	93.767		62,271	--
Subtotal			139,341	--
Substance Abuse Prevention and Treatment (SAPT)	93.959	14-90087	480,112	--
<u>U.S. Department of Health and Human Services</u>				
Passed through State Department of Health Care Services (continued):				
Medical Assistance Program	93.778		\$ 2,264,396	\$ --
Passed through State Department of Social Services/County of Santa Cruz				
Child Support Enforcement	93.563		1,159,858	--
Passed through State Community Services Development Department:				
Low Income Housing Energy Assistance Program	93.568	15B-3031	49,148	--
Low Income Housing Energy Assistance Program	93.568	16B-4030	46,008	--
Subtotal CFDA Number 93.568			95,156	--
Community Services Block Grant	93.568	15F-2034	126,527	--
Community Services Block Grant	93.568	15F-2407	28,081	--
Community Services Block Grant	93.568	16F-5034	161,684	--
Subtotal CFDA Number 93.569			316,292	--
Total U.S. Department of Health and Human Services			\$ 10,521,504	\$ --
<u>U.S. Department of Homeland Security</u>				
Passed through State Office of Emergency Services:				
FED-EMPG - Emergency Management Performance Grant	97.067	2015-0049	137,047	--
FED-HSGP - Homeland Security Grant Program	97.067	2015-00078	72,730	--
Subtotal			209,777	--
Total U.S. Department of Homeland Security			\$ 209,777	\$ --
Total Expenditures of Federal Awards			\$ 14,559,544	\$ --

See accompanying notes to Schedule of Expenditures of Federal Awards

COUNTY OF SAN BENITO

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the County of San Benito for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 3: CATALOG OF FEDERAL DOMESTIC (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier and the word “unknown” were used.

NOTE 4: INDIRECT COST RATE

The County did not elect to use the 10% de minimis indirect cost rate as covered in 2 CFR §200.414. Uniform Guidance, §200.510(6), requires the County to disclose whether or not it elected to use the 10 percent de minimis cost rate that §200.414(f) allows for nonfederal entities that have never received a negotiated indirect cost rate.

NOTE 5: OUTSTANDING LOANS OF FEDERAL FUNDS

Outstanding federally-funded program loans carried the following balances as of July 1, 2015 and June 30, 2016:

Federal CFDA #	Program Title	Amount Outstanding		
		July 1, 2015	New Loans	June 30, 2016
14.239	HOME Investment Partnerships Programs	\$ 146,281	\$ 900,000	\$ 1,046,281

COUNTY OF SAN BENITO

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section 1

Financial Statements

Summary of Auditor's Results

- | | |
|--|---------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal controls over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified? | None Reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | None Reported |
| 2. Type of auditor's report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 4. Identification of major programs: | |

CFDA Number

Name of Federal Program

93.558	Temporary Assistance for Needy Families
93.658	Foster Care
14.239	HOME Investment Partnership Program

Federal Awards

Summary of Auditor's Results

- | | |
|---|------------|
| 5. Dollar Threshold used to distinguish between Type A and Type B programs? | \$ 750,000 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

COUNTY OF SAN BENITO

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

Section 2

Financial Statement Findings

2016-001 - REVENUE RECOGNITION

Criteria

Generally accepted accounting principles (GAAP) requires that governmental funds are reported using the current financial resources measurement focus and the modified basis of accounting. Under this method, revenues are recognized when measurable and available. The County policy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned. On an accrual basis, revenues from property tax is recognized in the fiscal year for which the taxes are levied. Revenues from sales taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Condition

During our audit, we noted that the County had multiple instances where revenue recognition principles as describe above were not applied properly.

Cause

The County did not properly interpret revenue recognition principles related to unearned revenue. Additionally, detailed information was not provided timely to the Auditor Controller's office and was not sufficiently analyzed to properly apply revenue recognition principles

Effect of Condition

This condition materially misstated revenues, accounts receivable, unavailable revenue, unearned revenue, fund balance and net position of the County. A summary of the misstatements identified as a result of audit procedures follows:

- Nonaccrual of revenues for \$174k and \$272k due from the State and CDBG receivable in the amount of \$784,949.
- Accounts receivables not received within the 60 day availability period but not included in unavailable revenues:
 - General Fund \$118,764
 - Human Services Agency \$68,366
 - Migrant Labor Fund \$207,968
 - CSWD Fund \$110,161
 - Family Support Fund \$484,393
- Road Fund recorded multiple receivables totaling approximately \$450,000, however, these amounts were received prior to June 30, 2016 but not submitted for deposit until September 2016. As a result these items should have been recorded as cash on hand and not receivable at June 30, 2016

COUNTY OF SAN BENITO

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

Recommendation

We recommend that the County adopt policies for departments to provide supporting documentation to the Auditor Controller's office in a timely manner to allow for sufficient analysis of accruals and cash receipts to allow for proper recording of these transactions. It is also recommended that the County provide additional training to staff regarding revenue recognition principles to bolster the understanding of what is needed to support proper revenue recognition within the financial reporting process.

Management Response

Management agrees with the CLA Auditor recommendation. Management has already begun to take affirmative measures to implement the recommendation. Management is in the process of implementing the adopted policies and training recommendations related to revenue recognition.

2016-002 - COMPENSATED ABSENCES

Criteria

GAAP states that expenditures associated with termination benefits, including compensated absences, are only recognized in governmental funds at the point at which they normally are liquidated with expendable available financial resources (that is, when due and payable). Accordingly, the amount to be accrued as an expenditure is expressly limited to pending payouts of unused leave owed to employees who left active service by the end of the fiscal period.

Condition

During our audit, it was noted that the County had accrued \$300,000 into governmental funds for compensated absences when the related employees had not left active service by the end of the fiscal period.

Cause

As a budgeting tool the County recorded the accrual and did not consider the appropriateness of this accrual in accordance with GAAP.

Effect of Condition

As a result governmental fund liabilities and expenditures were overstated in the prior year by \$300,000

Recommendation

The County should adopt policies to review the treatment of accrual entries outside the normal course of government activities and document authoritative guidance that supports the position for these accruals. Additionally, the County should consider consulting with an external government accountant or auditor prior to recording unusual accrual entries.

COUNTY OF SAN BENITO

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

Management Response

Management agrees with the CLA Auditor recommendation. Management has already begun to take affirmative measures to implement the recommendation. As was discussed with CliftonAllenLarson LLP auditor Jeffrey Peek, given the limitations of the current financial resources measurement focus and modified basis of accounting to financially prepare the County for the liabilities associated with compensated absences, the County will pursue the assignment of fund balances to address this concern.

2016-003 - OTHER POST-EMPLOYMENT BENEFITS

Criteria

GAAP states that government employers that participate in a single-employer or multiple-employer defined benefit plan do not recognize an expenditure for pension benefits and OPEB until contributions are actually made, or are expected to be made from current financial resources.

Condition

During our audit, it was noted that the liability and expenditures for OPEB expected to be made from current financial resources were not properly allocated from the general fund to other applicable funds where the expenditure should be recognized.

Cause

The County did not perform a reconciliation of the OPEB clearing fund that is included within the general fund reporting.

Effect of Condition

This allowed an overstatement of expenditures in the general fund and understatements of expenditures in the remaining governmental and proprietary funds. The prior year general fund balance was understated \$1,850,285 as a result of these overstated expenditures.

Recommendation

As part of the closing process each year the County should perform a reconciliation of the OPEB clearing fund to ensure that expenditures are properly allocated within each fund of the County.

Management Response

Management agrees with the CLA Auditor recommendation. Management has already begun to take affirmative measures to implement the recommendation. The County has addressed previous issues and will reconcile the OPEB clearing fund as part of the annual closing process.

COUNTY OF SAN BENITO

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

2016-004 - STATEMENT OF EXPENDITURE OF FEDERAL AWARD REPORTING

Criteria

Statement on Auditing Standard No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 115), applies to the County's current year fiscal audit. The standard provides guidance in that if an entity is unable to draft its own financial statements, there may be a material weakness or significant deficiency. External auditors cannot be party of the County's internal controls, including controls over the preparation of the financial statements, and are prohibited from auditing their own work as doing so impairs their independence. These same requirements apply to the Schedule of Expenditures of Federal Awards (SEFA).

The SEFA, while not part of the basic financial statements, is audited in relation to the basic financial statements, in accordance with the requirements of the Uniform Guidance. The Uniform Guidance requires auditors to determine major programs and perform risk determinations based on a complete SEFA prior to performing fieldwork.

Condition

In the process of obtaining the County's federal expenditures and reconciling to the general ledger by grant and by program, we noted an additional program that was omitted from the SEFA that resulted in a significant understatement of expenditures and another major program to be audited.

Cause

Not having an adequate system in place for compiling the SEFA can result in missing or inaccurate federal expenditures being reported. Since the external auditors must identify the County's major programs using its SEFA, inaccurate or missing balance may result in additional work and audit fees if a new program is identified upon completion of fieldwork.

Effect of Condition

By not conducting an existence and completeness test it is likely the federal expenditures reported on the SEFA will be misstated. The following misstatements were noted for the year ended June 30, 2016:

- The County had a new HOME loan program for which loan disbursements of \$900,000 were not included on the SEFA.
- The County had expenditures related to CDBG in the amount of \$783,949 that were not included on the SEFA.
- The County over reported expenditures in the amount of \$1,174,234 related to the TANF program because amounts related to the County's sharing ratio were improperly included as federal expenditures.

Recommendation

The County should adopt a process that reconciles expenditures and revenues under federal programs ensure completeness of the SEFA. Additionally, this reconciliation should include the provisions for any applicable sharing ratios so the portions of federal, state and county can be identified so the proper amount of federal expenditures is included within the SEFA.

COUNTY OF SAN BENITO

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

Management Response

Management agrees with the CLA Auditor recommendation. Management has already begun to take affirmative measures to implement the recommendation. County Management will conduct workshops with the applicable SEFA awardee departments to address the recommendation.

2016-005 - CAPITAL ASSETS

Criteria

GAAP states that capital assets should be presented in the proprietary and fiduciary funds and government-wide statements of net position at historical cost less accumulated depreciation based on the capitalization policy as established by the governmental entity. Additionally, assets constructed by the governmental entity are not subject to depreciation until they are placed into service, at which time they are depreciated in accordance with the policy as established by the governmental entity. The County of San Benito (County) capitalization policy is disclosed in Note 1 to the financial statements.

Condition

During our audit, it was noted that additional cost was improperly added to capital assets and assets constructed by the County were not properly recorded as placed into service in prior years.

Cause

County management did not sufficiently review capital asset additions. Additionally, the County did not properly track constructed assets to appropriately record them as placed in service and begin depreciation.

Effect of Condition

If capital assets are not properly tracked major categories of capital assets, such as, land, construction in progress, buildings and improvements, machinery and equipment and infrastructure may be misstated. Additionally, depreciation could become understated due to assets that are not placed in service timely. During the year ended June 30, 2016 capital asset additions in the amount of \$46,034 were not properly capitalized. Depreciation expense in the government-wide financial statements was also understated by \$151,248 in prior years.

Recommendation

We recommend that the County adopt policies and procedures to provide for a more thorough review of capital asset expenditures / expenses. This review should include reviewing supporting documentation for both assets that are capitalized, as well as a review of potential expenditures / expenses that could potentially be capitalized to ensure that expenditures / expenses are properly capitalized in accordance with County policy. Additionally, we recommend that the County adopt policies and procedures to review capital assets under construction to ensure they are placed into service timely and depreciated in accordance with County policy. This process may include performing documented inquiries with public works and or have public works perform a review of all construction projects to represent that projects are ongoing or have been placed in service during the fiscal year. For all construction projects that have been placed in service a notice of completion should be obtained.

COUNTY OF SAN BENITO

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Management Response

Management agrees with the CLA Auditor recommendation. Management has already begun to take affirmative measures to implement the recommendation.

20016-006 - CASH

Criteria

Cash recorded in the financial statements should reconcile to amounts held in bank accounts for the County.

Condition

During our audit, it was discovered that one of the County's cash accounts had been included within both the general cash reconciliation and the cash with fiscal agent reconciliation as of June 30, 2015.

Cause

The County did not review inputs within the reconciliations and cross reference accounts to ensure each account was only included once.

Effect of Condition

Cash was overstated in the prior year in the amount of \$125,000.

Recommendation

The County should implement a procedure to review the cash reconciliations with a checklist of all cash and investment accounts of the County. This will ensure that each account is included within the reconciliations but not included more than one time.

Management Response

Management agrees with the CLA Auditor recommendation. Management has already begun to take affirmative measures to implement the recommendation.

2016-007 - PENSION LIABILITY AND RELATED DEFERRED INFLOWS AND OUTFLOWS

Criteria

The County should record net pension liability and related deferred inflows and outflows only associated with the County and its component units.

COUNTY OF SAN BENITO

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

Condition

During our audit, it was noted that the County had over accrued their net pension liability and deferred inflows and outflows.

Cause

The County Courts are included within the miscellaneous pension plan of the County. However, the County Courts are considered to be a separate governmental entity and, as such, should not be included within the County's net pension liability. In the prior year the entire miscellaneous plan pension liability and deferred inflows and outflows were included in the County's financial statements without excluding the portion related to the County Courts.

Effect of Condition

As a result net pension liability was overstated by \$3,373,161, and deferred inflows were overstated by \$452,744, resulting in an understatement of net position in the amount of \$3,825,905.

Recommendation

The County should implement a procedure to calculate the percentage applicable to the County Courts within the miscellaneous pension plan of the County to properly exclude the Court portion from the County's calculation of net pension liability and deferred inflows and outflows.

Management Response

Management agrees with the CLA Auditor recommendation. Management has already begun to take affirmative measures to implement the recommendation.

COUNTY OF SAN BENITO

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section 3

None Reported

Section 4

Prior Year Findings

Reference Number	2015-001
Federal Program Title	Temporary Assistance for Needy Families
CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Pass Through Entity	State Department of Social Services
Compliance Requirement	Eligibility

Recommendation:

The predecessor auditor recommend that the HHSA management review staffing levels and responsibilities, and that they implement policies and procedures to ensure IEVS reports are review promptly, and within the required timeframe.

Status: Planned corrective action completed this fiscal year.

**SUPPLEMENTARY SCHEDULES
OF
COMMUNITY SERVICES BLOCK GRANT**

Supplemental Statement of Revenues and Expenditures
 CSBG Contract No. 15F-2034
 Federal Catalog No. 93.569
 For the Period Jan 1, 2015 through December 31, 2015

	1/1/2015 through 6/30/2015	7/1/2015 through 12/31/2015	Total Audited Costs	Total Reported Expenses	Total Budget
Revenue					
Grant Revenue	\$ 168,389	\$ 82,888	\$ 251,277		
Interest Income					
Total Revenue	<u>\$ 168,389</u>	<u>\$ 82,888</u>	<u>\$ 251,277</u>		
Expenditures					
Administration					
Salaries & Wages	\$ 13,676	\$ 9,640	\$ 23,316	\$ 23,316	\$ 21,424
Fringe Benefits	\$ 6,281	\$ 3,857	\$ 10,138	\$ 10,138	\$ 10,498
Operation Expenses	\$ 18,822	\$ 8,233	\$ 27,055	\$ 27,055	\$ 28,398
Other Costs					
Sub Total Administration Costs	<u>\$ 38,779</u>	<u>\$ 21,730</u>	<u>\$ 60,509</u>	<u>\$ 60,509</u>	<u>\$ 60,320</u>
DWAP Administrative	\$ -	\$ -	\$ -	\$ -	\$ -
Program					
Salaries & Wages	\$ 25,546	\$ 58,644	\$ 84,190	\$ 84,190	\$ 79,633
Fringe Benefits	\$ 11,659	\$ 19,129	\$ 30,788	\$ 30,788	\$ 33,811
Operation Expenses	\$ 18,083	\$ 17,603	\$ 35,686	\$ 35,686	\$ 35,734
Other Costs	\$ 31,234	\$ 8,870	\$ 40,104	\$ 40,104	\$ 41,779
Sub Total Personnel Costs	<u>\$ 86,522</u>	<u>\$ 104,246</u>	<u>\$ 190,768</u>	<u>\$ 190,768</u>	<u>\$ 190,957</u>
DWAP Program					
Outreach	\$ -	\$ -	\$ -	\$ -	\$ -
Intake	\$ -	\$ -	\$ -	\$ -	\$ -
Water Assistance Bill	\$ -	\$ -	\$ -	\$ -	\$ -
Sub Total DWAP Costs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total All Costs	<u>\$ 125,301</u>	<u>\$ 125,976</u>	<u>\$ 251,277</u>	<u>\$ 251,277</u>	<u>\$ 251,277</u>

Supplemental Statement of Revenues and Expenditures
 CSBG Contract No. 15F-2407
 Federal Catalog No. 93.569
 For the Period April 1, 2015 through November 30, 2015

	4/1/2015 through 7/31/2015	8/1/2015 through 11/30/2015	Total Audited Costs	Total Reported Expenses	Total Budget
Revenue					
Grant Revenue	\$ 18,290	\$ 41,710	\$ 60,000		
Interest Income					
Total Revenue	\$ 18,290	\$ 41,710	\$ 60,000		
Expenditures					
Administration					
Salaries & Wages	\$ 767	\$ 3,555	\$ 4,322	\$ 4,322	\$ 4,027
Fringe Benefits	\$ 355	\$ 632	\$ 987	\$ 987	\$ 1,973
Operation Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Costs					
Sub Total Administration Costs	\$ 1,122	\$ 4,187	\$ 5,309	\$ 5,309	\$ 6,000
DWAP Administrative					
	\$ -	\$ -	\$ -	\$ -	\$ -
Program					
Salaries & Wages	\$ 4,665	\$ 1,220	\$ 5,885	\$ 5,885	\$ 5,556
Fringe Benefits	\$ 433	\$ 2	\$ 435	\$ 435	\$ 444
Operation Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Costs	\$ 33,554	\$ 14,817	\$ 48,371	\$ 48,371	\$ 48,000
Sub Total Personnel Costs	\$ 38,652	\$ 16,039	\$ 54,691	\$ 54,691	\$ 54,000
DWAP Program					
Outreach	\$ -	\$ -	\$ -	\$ -	\$ -
Intake	\$ -	\$ -	\$ -	\$ -	\$ -
Water Assistance Bill	\$ -	\$ -	\$ -	\$ -	\$ -
Sub Total DWAP Costs	\$ -	\$ -	\$ -	\$ -	\$ -
Total All Costs	\$ 39,774	\$ 20,226	\$ 60,000	\$ 60,000	\$ 60,000