



**STANISLAUS COUNTY CIVIL GRAND JURY**

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June 13, 2012

**CONFIDENTIAL**

BOARD OF SUPERVISORS  
2012 JUN 13 P 12:35

The Honorable William O'Brien  
Chairman  
Stanislaus County Board of Supervisors  
1010 10<sup>th</sup> Street, Suite 6500  
Modesto, CA 95354

Dear Supervisor O'Brien:

The Civil Grand Jury is providing the Stanislaus County Board of Supervisors with the attached copy of the portion of the Civil Grand Jury final report relating to the Special District Audit Requirement. The Grand Jury is releasing this report to you, two working days prior to its release to the public. The Penal Code prohibits you from disclosing any contents of the reports prior to their public release (Penal Code Section 933.05 (f)).

Your response to the findings and recommendations in the report must be submitted to Presiding Judge Ricardo Córdova, Superior Court - Stanislaus County, at P. O. Box 3488, Modesto, CA 95353. We are enclosing guidelines that may be helpful as you prepare your response. Please submit a hard copy of your response along with a copy on a CD in Microsoft Word or PDF format.

Sincerely,

Benny Del Re  
Foreperson  
2011-2012 Civil Grand Jury

Attached report: 12-28GJ

*Hand delivery*

## **HOW TO RESPOND TO FINDINGS & RECOMMENDATIONS**

### **Responses**

The California Penal Code §933(c) specifies both the deadline by which responses shall be made to the Civil Grand Jury Final Report recommendations, and the required content of those responses.

### **Deadline for Responses**

All agencies are directed to respond to the Presiding Judge of the Stanislaus County Superior Court,

- Not later than 90 days after the Civil Grand Jury submits a final report on the operations of a public agency, the governing body of that agency shall respond to the findings and recommendations pertaining to the operations of that agency.
- Not later than 60 days after the Civil Grand Jury submits a final report on the operation of a County agency, the elected head governing that agency shall respond to the findings and recommendations pertaining to the operations of their agency.
- Information copies of responses pertaining to matters under the control of a county officer or agency are to be sent to the Board of Supervisors.
- A copy of all responses to the Civil Grand Jury reports shall be placed on file with the clerk of the public agency and the Office of the County Clerk, or the city clerk when applicable.
- One copy shall be placed on file with the applicable Civil Grand Jury by, and in the control of, the currently impaneled Grand Jury, where it shall be maintained for a minimum of five years.

### **Content of Responses**

For each Civil Grand Jury findings and recommendations, the responding person or entity shall report one of the following actions:

- The respondent agrees with the finding
- The respondent disagrees wholly or partially with finding and shall include an explanation.
- The recommendation has been implemented, with a summary regarding the implemented action.
- The recommendation has not been implemented, but will be implemented in the future, with a time frame for implementation.
- The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame if it is to be implemented later.
- The recommendation will not be implemented because it is unwarranted or unreasonable, with supportive explanation.

**Stanislaus County Civil Grand Jury  
Review of the Special District Audit Requirement  
Case 12-28GJ Continuity Report**

**Summary:**

The 2010-2011 Stanislaus County Civil Grand Jury (SCCGJ) submitted report Case #11-32GJ, a review of the Special District Audit requirements per California Government Code (CGC) Section 26909. There are thirty-six districts within Stanislaus County that the Civil Grand Jury has authority to conduct audit reviews. The Special Districts are on a two-year audit cycle.

The 2010-2011 report found seven districts out of audit requirement compliance and in varying phases to meet those requirements.

As of April 2012, the following two of these seven special districts have completed the audit requirements.

- Woodland Fire Protection District – Unqualified Opinion
- Sand Creek Flood Control – Unqualified Opinion

Five are still pending completion.

- Monterey Park Tract Community Service
- West Port Fire Protection District
- Riverdale Park Community Service
- Knights Ferry Community Service
- East Stanislaus Resource Conservation

**Glossary:**

CGC Section 26909 California Special District Audit Requirements.

**Unqualified Opinion:** Auditor's opinion of a financial statement, given without any reservations. Such an opinion basically states that the auditor feels the company followed all accounting rules appropriately and that the financial reports are an accurate representation of the company's financial condition.

**Qualified Opinion:** Qualified Opinion report is issued when the auditor encountered one of two types of situations which do not comply with generally accepted accounting principles; however the rest of the financial statements are fairly presented.

**Methodology Of Investigation:**

The 2010-2011 Stanislaus County Civil Grand Jury requested that the Stanislaus County Auditor-Controller contact these Special Districts to develop a timeline and to ensure completion of the required audits. The Stanislaus County Auditor-Controller contacted each Special District and maintained a detailed log of all contacts with each Special District and their audit firms in an effort to ensure the completion of these audits.

**Findings:**

- F1: Monterey Park Community Service has not been audited since 1995.
- F2: The lack of money available to Monterey Park Community Service District and lack of proper record-keeping resulted in a failed attempt by the Stanislaus County Auditor-Controller to hire a firm to perform a forensic audit as recommended by the 2010-2011 SCCGJ report. An audit of Monterey Park would require the District borrow funds from Stanislaus County and be approved by the Board of Supervisors. Stanislaus County personnel would then have to complete the audit.
- F3: Westport Fire District is out of audit compliance for the fiscal years 2008/09 and 2009/10.
- F4: Riverdale Park Community Service outstanding audits include the fiscal years 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10. As of April 2012, the financial information to complete the 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 audits has not been submitted to their auditors.
- F5: Knights Ferry Community Services is in arrears for audit compliance for 2005/06, 2006/07, 2007/08, 2009/10 and the audit for 2010/11 is due June 30, 2012. Audits for 2005/06 and 2006/07 cannot be completed due to the lack of financial information. The remaining years are in various stages of completion.
- F6: The East Stanislaus Resource Conservation audits have been completed, receiving a Qualified Opinion. However, as of March 2012, the audits had not been presented to the Board and the audits, as of April 2012, have not been received by the SCCGJ or the Stanislaus Auditor-Controller.
- F7: During the course of follow up one entity requested information to extend the audit period from two years to five years.

**Recommendations:**

- R1: The Stanislaus County Auditor-Controller should place the issue with respect to an audit of the Monterey Park Community Service District on the agenda of the Stanislaus County Board of Supervisors.
- R2: Westport Fire District should submit a time-line for completing its audits to the SCCGJ and the Stanislaus County Auditor-Controller, with a progress update every 30 days until the audits are completed.
- R3: Riverdale Park Community Service should submit a time-line for completing its audits to the SCCGJ and the Stanislaus County Auditor-Controller with a progress update every 30 days until the audits are completed.
- R4: Knights Ferry Community Service should submit a time-line for completing its audits to the SCCGJ and the Stanislaus County Auditor-Controller with a progress update every 30 days until the audits are completed.
- R5: The East Stanislaus Resource Conservation should submit the completed, Board-approved audits to the SCCGJ and the Stanislaus County Auditor-Controller.

R6: An audited financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. These Special Districts are responsible to their public. CGC Section 26909:

*A special district may, by unanimous request of the governing board of the special district, with unanimous approval of the board of supervisors, replace the annual special audit with a biennial audit covering a two-year period or, if the district's annual budget does not exceed an amount specified by the board of supervisors, an audit covering a five-year period.*

A two-year audit cycle provides ample time for the submission and completion of this responsibility. No extensions of audit time frames should be entertained.

R7: CGC Section 26909, provides:

*If, after considering identified conditions and events and management's plans, the auditor concludes that substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time remains, the audit report should include an explanatory paragraph to reflect the conclusion.*

A special district's inability to produce auditable financial statements, and/or a habitual audit non-compliance status, places reasonable doubt as to the entity's ability to continue as an independent going concern.

The 2011-2012 SCCGJ recommends that the Stanislaus County Board of Supervisors review and take action to consolidate or dissolve Special Districts that do not comply with audit requirements.

R8: For the benefit of public disclosure, the Stanislaus County Auditor-Controller should submit to the Stanislaus County Board of Supervisors an annual report on the audit compliance status of all Stanislaus County Special Districts. The report should include;

- The disclosure of any non-compliant Special District audits and all years for which the non-compliance status continues to exist.
- The types of opinions that may be expressed per CGC Section 26909; Unqualified, Qualified, Adverse or Disclaimer of Opinion.
- Make a recommendation to the Board of Supervisors as to the ability of the Special District to continue as an independent going concern.

This report is issued by the 2011-2012 Stanislaus County Civil Grand Jury. No members of the grand jury volunteered to recuse themselves due to a perceived conflict of interest.

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code §929 requires that reports of the Grand Jury not contain the name of any person, or facts leading to the identity of any person who provides information to the Civil Grand Jury. The California State Legislature has stated that it intends the provisions of Penal Code §929 prohibiting disclosure of witness identities to encourage full candor in testimony in Civil Grand Jury investigations by protecting the privacy and confidentiality of those who participate in any Civil Grand Jury investigation.

**Requests For Responses:**

Stanislaus County Auditor-Controller  
Stanislaus County Board of Supervisors  
Monterey Park Tract Community Service  
Westport Fire District  
Riverdale Park Community Service  
Knights Ferry Community Service  
East Stanislaus Resource Conservation