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August 15, 2019

Honorable Gary Nadler
Hall of Justice
600 Administration Drive
Santa Rosa, CA 95403

READ AND CONSIDERED
DATE 9/21/19 BY [Signature]

Dear Judge Nadler:

Below, please find the response of the County of Sonoma Auditor-Controller-Treasurer-Tax Collector (ACTTC) to the Grand Jury's findings published in the 2018-2019 Grand Jury Report: The Behavioral Health Budget – A Perfect Storm.

FINDINGS ADDRESSED TO ACTTC:

F12. Auditing procedures designed to detect incorrect revenue information were not evident.

Disagree wholly with the finding. The ACTTC cannot speak to the procedures in place within the Department of Health Services, but within the ACTTC office there are several long-standing procedures already in place to detect incorrect revenue information, which are detailed in the response to Recommendation R8.

RECOMMENDATIONS ADDRESSED TO ACTTC:

R8. The County Auditor's Office institute procedures for verifying actual revenue figures, rather than verifying that projected budgets balance, by Dec. 31, 2019. [F12]

This recommendation will not be implemented because it is not warranted. The ACTTC already has appropriate and effective procedures in place for verifying actual revenue figures, and the ACTTC is not part of the budget development process for Behavioral Health. Furthermore, the identified Behavioral Health issue is not the result of inaccurate actual revenue recognition.

The ACTTC has several effective and long-standing procedures in place to review revenues and receivables, which are detailed below.

Review of Individual Transactions: The first review occurs at the transaction level. Journal entries that establish or modify revenue and account receivable balances are reviewed by ACTTC staff prior to being posted. This review is to ensure that the department has sufficient documentation to support the recording of the revenue.

Review of Account Balances: The next level of review occurs at the account balance level during year-end close and during the preparation of the Sonoma County Comprehensive Annual Financial Report (CAFR). This review is focused on confirming that revenues recognized during the year and receivable balances at year-end comply with the County's revenue recognition policy. In compliance with Generally Accepted Accounting Principles, the

County's governmental funds, which include the Behavioral Health special revenue funds, use the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. For state and federal grants and charges for services, revenues are considered available when the receipt occurs within 365 days of the end of the fiscal year. This means that the County recognizes revenue at the point we reasonably expect to receive payment within the next year. If, during our review, we determine that the County cannot reasonably expect to receive payment within a year, we will defer the revenue to a future year. The ACTTC review of revenue and receivable accounts necessarily relies to an extent on the expertise of department accountants to provide information about revenue streams and the timing of anticipated receipts, but we also review historical trends and other information to determine if department assumptions are reasonable. Our office gives extra scrutiny to the accounting of departments that we consider to be at elevated risk for errors. The Department of Health Services has been receiving this extra scrutiny for several years.

External Audit: The final level of review occurs during the annual audit of the County's CAFR by independent external auditors. This audit is designed to provide reasonable assurance about whether the financial statements are free from material misstatement. The audit involves obtaining evidence about the amounts and disclosures in the financial statements, evaluating the appropriateness of accounting policies used, and evaluating the reasonableness of significant accounting estimates used by management.

Note that the procedures detailed above are designed to evaluate the accuracy of revenue and receivable transactions and balances, they are not designed to compare actual revenues to budgeted revenues or to evaluate the reasonableness of budgeted revenues. Roles and responsibilities related to county budget administration are governed by Chapter 1, Division 3, Title 3 of California Government Code, otherwise known as the *County Budget Act*. The authority and responsibility to prepare and evaluate budgeted revenues and expenditures lies with department management, the County Administrator and the Board of Supervisors. The ACTTC role in budget administration is primarily to support the Board of Supervisors and the County Administrator in their responsibilities and to ensure that actual expenditures do not exceed the adopted appropriation limits.

Respectfully,



Erick Roeser
Auditor-Controller-Treasurer-Tax Collector
County of Sonoma

cc: Members, Sonoma County Board of Supervisors
Dee Schweitzer, Foreperson, 2018-2019 Sonoma County Civil Grand Jury
Sheryl Bratton, Sonoma County Administrator