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To the Chair, Members and Management of the
Yolo County Local Agency Formation Commission
Woodland, California

In planning and performing our audit of the financial statements of the Yolo County Local Agency Formation Commission (the LAFCO) as of and for the years ended June 30, 2011, 2010 and 2009 in accordance with auditing standards generally accepted in the United States of America, we considered the LAFCO's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 LAFCO's internal control. Accordingly, we do not express an opinion on the effectiveness of the LAFCO's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies and material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a 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. We consider the following deficiency in the LAFCO's internal control to be a significant deficiency:

Significant consulting expenditures incurred during the year ended June 30, 2008 were inadvertently posted as expenditures during the year ended June 30, 2009 and several transactions were not posted in the proper general ledger accounts for reporting purposes, such as the June 30, 2010 and 2009 pension contributions, June 30, 2010 travel expenditures and June 30, 2009 accrued payroll and benefits. We recommend the LAFCO regularly review invoices paid as well as budget versus actual comparisons to ensure the expenditures are posted to the proper account and period. We recommend documentation of these reviews be retained for the audit. This will provide a second level of review over transactions posted on the LAFCO's behalf by the County of Yolo Auditor-Controller, Treasurer & Tax Collector's Office.

We also noted the following items that are presented for your consideration:

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was required to be

implemented by all governmental entities during the year ended June 30, 2010. However, we noted the LAFCO had not addressed GASB Statement No. 45 as of the start date of the audit and an estimate of the postretirement health insurance (OPEB) liability was obtained subsequent to audit fieldwork.

The OPEB liability recognized was estimated by using the percentage annual required contribution to covered payroll specified in the County's OPEB valuation. The OPEB liability is not currently funded and will continue to grow unless it is funded in the future.

Due to the small size of the LAFCO's staff, it is not possible to separate all duties as effectively as would be possible in a larger organization. Consequently, we recommend financial information be reviewed by the Commissioners on a regular basis to provide another layer of review of financial information that will further limit the risk of error and fraud occurring. Information that we recommend be regularly (i.e. monthly or quarterly) reviewed by the Commissioners include a list of checks cut, County Journal Entries, the general ledger or summarized financial results that includes a budget versus actual comparison and payroll registers. We recommend the Commissioner's review of this financial information be documented as a consent item in the minutes to the meetings of the Commissioners.

We noted the LAFCO adopted many of the County of Yolo policies, such as the retirement benefits, OPEB benefits, vacation and sick leave and travel and expense reimbursements policies. We recommend the LAFCO disclose policies on its website or maintain hard copies of any policies it does not believe are appropriate to include on its website so the information is readily available to interested parties, including future auditors.

We recommend the LAFCO document the process used to prepare and send information to the County of Yolo Auditor-Controller, Treasurer & Tax Collector's Office so accounting procedures are documented in the event of staff turnover. This would ease the transition of new staff and decrease the likelihood of error that could cause a misstatement in the financial statements.

Some information needed for the audit was not readily available, including payroll records, the summary of vacation and sick leave, PERS contributions, invoices and check copies for disbursements and support for OPEB activity. We recommend management to review its documentation retention policy and consider what documentation should be retained internally for use during the audit versus being requested from the County of Yolo.

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This report is intended solely for the information and use of the Commissioners, management, and member agencies and is not intended to be and should not be used by anyone other than these specified parties.

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March 16, 2012