

To Vicki Crow, Auditor-Controller and  
The Audit Committee of the  
County of Fresno, California  
2281 Tulare Street  
Fresno, California 93721

In planning and performing our audit of 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 Fresno as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the County of Fresno'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 County of Fresno's internal control. Accordingly, we do not express an opinion on the effectiveness of the County of Fresno's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 consider the following deficiencies in County of Fresno's internal control to be material weaknesses:

#### **10-1 Bank Accounts**

General Fund cash and investments were understated by \$14,194,235 in the Comprehensive Annual Financial Report (CAFR). This understatement was the result of the omission of cash balances in two bank accounts which were not included as part of the blotter reconciliation. Once the error was identified by the audit firm, the adjusting entry was made and the CAFR was corrected. We recommend that the County implement procedures to ensure all bank accounts under the County of Fresno's name are included in the blotter reconciliation.

#### **Management Response:**

During fiscal year 2009-10 the County implemented a new Electronic Benefits Transfer program (EBT) for Social Services recipients. Under this program the County established two new bank accounts to support the EBT process. The County did not record these bank accounts on their financial statements. Management concurs with the recommendation and will implement the following controls:

1. A "Bank Account Master List" of all bank accounts established in the County of Fresno name will be compiled and maintained in the Treasurer Division even if such accounts are not included in the blotter reconciliation process.

2. An end-of-year bank statement will be required for each account listed on the Bank Account Master List.
3. The Treasurer Division shall provide a list of all accounts included in the blotter reconciliation process and all accounts not included in the blotter reconciliation process.
4. The Financial Reporting and Audits Division will obtain an updated Bank Account Master List from the Treasurer Division for confirmation of cash balances as reported by the account holder.
5. The staff person assigned to cash reconciliation shall be responsible for verifying that all accounts listed in the Bank Account Master List have updated account balances for the fiscal year.
6. The staff person shall trace and agree account balances from the Bank Account Master List with the adjusted cash balance as listed on the Bank Reconciliation Form (FCAC 168).
7. A fund shall be established in PeopleSoft for each bank account(s) to mirror.

#### **10-2 Accounts Receivable/Deferred Revenue**


General Fund accounts receivable was understated and deferred revenue was understated by \$27,607,174. These understatements resulted from the Human Services Department netting deferred revenue against accounts receivable on the Form FCAC-175 Trust and Agency Fund. The design of the Form FCAC-175 does not have a column to capture deferred revenue, therefore, the department netted deferred revenue against accounts receivable on Form FCAC-175. Once the error was identified by the audit firm, the adjusting entry was made and the CAFR was corrected. We recommend that the County modify the Form FCAC-175 and/or implement other reconciliation procedures to ensure accounts receivable and deferred revenue are correctly reported in the CAFR.

#### **Management Response:**

Management concurs with this recommendation and will implement the following control procedure:

1. Form FCAC-175, Trust Fund Reconciliation Form, will be modified to add a column to report deferred revenue.

This communication is intended solely for the information and use of the Audit Committee, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

  
Clovis, California  
January 21, 2011