

**COUNTY OF SANTA CLARA**

Single Audit Reports

For the Fiscal Year Ended June 30, 2004

**COUNTY OF SANTA CLARA**  
Single Audit Reports  
For the Fiscal Year Ended June 30, 2004

*Table of Contents*

	<i>Page(s)</i>
Independent Auditor’s Report on Schedule of Expenditures of Federal Awards .....	1-2
Schedule of Expenditures of Federal Awards .....	3-5
Notes to the Schedule of Expenditures of Federal Awards .....	6-10
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 <i>Government Auditing Standards</i> .....	11-12
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance In Accordance with OMB Circular A-133 .....	13-14
Schedule of Findings and Questioned Costs .....	15-20
Summary Schedule of Prior Audit Findings.....	21



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The Honorable Members of the  
Board of Supervisors of the  
County of Santa Clara  
San Jose, California

**INDEPENDENT AUDITOR'S REPORT ON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the County of Santa Clara, California (the County), as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our reported thereon dated December 3, 2004. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit. Our report included an explanatory paragraph due to the County adopting the retroactive reporting of all major general infrastructure assets provisions of Governmental Accounting Standards Board (GASB) Statement No.34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments* as of July 1, 2003. We did not audit the financial statements of the FIRST 5 Santa Clara County; the County Sanitation Districts 2 – 3 of Santa Clara County; the Santa Clara County Vector Control District; the Santa Clara County Central Fire Protection District; and the Los Altos Hills County Fire District, which represent the following percentages of assets, net assets and revenues as of and for the fiscal year ended June 30, 2004:

Opinion Unit	Net		
	Assets	Assets	Revenues
Governmental activities	2.4%	2.8%	2.9%
Business-type activities	2.9%	74.4%	0.3%
Aggregate discretely presented component units and remaining fund information	4.7%	5.1%	1.0%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the report of the other auditors. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards (the Schedule) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule does not include expenditures of federal awards received by the Housing Authority of the County of Santa Clara (Housing Authority). The Housing Authority's expenditures are separately audited in accordance with OMB Circular A-133. The Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Macias, Dini & Company LLP*

Certified Public Accountants

Walnut Creek, California  
December 3, 2004

**COUNTY OF SANTA CLARA**  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004

Federal Grantor/Grant Name	Federal CFDA No.	Expenditures
<b>U.S. Department of Agriculture</b>		
<u>Direct Program</u>		
Food Stamps	10.551	\$ 51,187,156
<u>Passed Through State Department of Social Services</u>		
State Administrative Matching Grants for Food Stamp Program	10.561	12,505,284
Subtotal Food Stamps Cluster		63,692,440
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2,090,482
<u>Passed Through Council on Aging Silicon Valley</u>		
Nutrition Services Incentive	10.570	608,319
<u>Passed Through State Department of Agriculture</u>		
Inspection Grading and Standardization	10.162	4,800
<u>Passed Through State Department of Education</u>		
Food Donation	10.550	12,213
School Breakfast Program	10.553	170,643
National School Lunch Program	10.555	258,157
Subtotal National School Lunch and Breakfast Program Cluster		428,800
<b>Total U.S. Department of Agriculture</b>		<b>66,837,054</b>
<b>U.S. Department of Housing and Urban Development</b>		
<u>Direct Programs</u>		
Community Development Block Grants/Entitlement Grants	14.218	2,828,170
Emergency Shelter Grants Program	14.231	87,462
Shelter Plus Care	14.238	2,142,929
HOME Investment Partnerships Program	14.239	573,356
<b>Total U.S. Department of Housing and Urban Development</b>		<b>5,631,917</b>
<b>U.S. Department of Justice</b>		
<u>Direct Programs</u>		
Supervised Visitation, Safe Havens for Children	16.527	166,859
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	624,215
Public Safety Partnership and Community Policing Grants	16.710	369,833
Subtotal Direct Programs		1,160,907
<u>Passed Through the State Office of Criminal Justice Planning</u>		
Juvenile Accountability Incentive Block Grants	16.523	739,519
Crime Victim Assistance	16.575	637,228
Byrne Formula Grant Program	16.579	752,734
Subtotal Passed Through State Office of Criminal Justice Planning		2,129,481
<u>Passed Through Bureau of Justice Assistance</u>		
Local Law Enforcement Block Grants Program	16.592	233,446
State Criminal Alien Assistance Program	16.606	1,382,031
Subtotal Passed Through Bureau of Justice Assistance		1,615,477
<b>Total U.S. Department of Justice</b>		<b>4,905,865</b>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**COUNTY OF SANTA CLARA**  
Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2004

Federal Grantor/Grant Name	Federal CFDA No.	Expenditures
<b>U.S. Department of Transportation</b>		
<u>Direct Program</u>		
Airport Improvement Program	20.106	351,815
<u>Passed Through State Department of Transportation</u>		
Highway Planning and Construction	20.205	1,175,095
<u>Passed Through State Business, Transportation, and Housing Agency</u>		
State and Community Highway Safety	20.600	138,417
<b>Total U.S. Department of Transportation</b>		<b>1,665,327</b>
<b>National Foundation on the Arts and the Humanities</b>		
<u>Passed Through California State Library</u>		
State Library Program	45.310	4,000
<b>Total National Foundation on the Arts and the Humanities</b>		<b>4,000</b>
<b>U.S. Department of Health and Human Services</b>		
<u>Direct Program</u>		
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	267,757
<u>Passed Through Santa Clara County Council on Aging</u>		
Special Programs for the Aging_ Title III, Part C_ Nutrition Services	93.045	1,250,297
<u>Passed Through California Family Health Council</u>		
Family Planning_ Services	93.217	54,480
<u>Passed Through State Department of Health Services</u>		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	179,070
Immunization Grants	93.268	1,130,645
Centers for Disease Control and Prevention _ Investigations and Technical Assistance	93.283	778,553
Refugee and Entrant Assistance_ Discretionary Grants	93.576	264,270
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	1,744,342
Medical Assistance Program	93.778	44,418,746
HIV Emergency Relief Project Grants	93.914	2,742,822
HIV Care Formula Grants	93.917	408,511
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	750,884
HIV Prevention Activities_ Health Department Based	93.940	1,310,307
Public Health Traineeships	93.964	939,371
Preventive Health and Health Services Block Grant	93.991	38,482
Maternal and Child Health Services Block Grant to the States	93.994	595,155
Subtotal Passed Through State Department of Health Services		55,301,158

See accompanying notes to Schedule of Expenditures of Federal Awards.

**COUNTY OF SANTA CLARA**  
Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2004

Federal Grantor/Grant Name	Federal CFDA No.	Expenditures
<u>Passed Through Administration Office of the Courts</u>		
Child Support Enforcement	93.563	24,433,635
<u>Passed Through State Department of Social Services</u>		
Promoting Safe and Stable Families	93.556	1,695,524
Temporary Assistance for Needy Families	93.558	102,390,966
Refugee and Entrant Assistance_State Administered Programs	93.566	1,717,414
Adoption Incentive Payments	93.603	163,606
Child Welfare Services_State Grants	93.645	1,391,532
Foster Care_Title IV-E	93.658	40,677,555
Adoption Assistance	93.659	7,762,384
Social Services Block Grant	93.667	543,287
Chafee Foster Care Independent Living	93.674	1,070,960
Subtotal Passed Through State Department of Social Services		157,413,228
<u>Passed Through State Department of Alcohol and Drug</u>		
Block Grants for Community Mental Health Services	93.958	691,851
Block Grants for Prevention and Treatment of Substance Abuse	93.959	11,814,273
Subtotal Passed Through State Department of Alcohol and Drug		12,506,124
<b>Total U.S. Department of Health and Human Services</b>		<b>251,226,679</b>
<b>U.S. Department of Homeland Security</b>		
<u>Passed Through the State Office of Emergency Services</u>		
State Domestic Preparedness Equipment Support Program	97.004	1,911,966
Emergency Management Performance Grants	97.042	70,847
Pre-Disaster Mitigation	97.047	25,000
State and Local All Hazards Emergency Operations Planning	97.051	310,494
Citizen Corps	97.053	16,245
Subtotal Passed Through State Office of Emergency Services		2,334,552
<b>Total U.S. Department of Homeland Security</b>		<b>2,334,552</b>
<b>Total Expenditures of Federal Awards</b>		<b>\$ 332,605,394</b>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**COUNTY OF SANTA CLARA**  
Notes to the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2004

**Note 1 – General**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the expenditures of all federal award programs of the County of Santa Clara, California (the County) for the fiscal year ended June 30, 2004, except for the Housing Authority of the County of Santa Clara (Housing Authority) (see Note 4). The County’s reporting entity is defined in Note 1 to the County’s basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

**Note 2 – Basis of Accounting**

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 2 to the County’s basic financial statements.

**Note 3 – Relationship to the Financial Statements**

Expenditures of Federal Awards are reported in the County’s basic financial statements as expenditures in the General Fund and nonmajor special revenue funds and as expenses in the Airport enterprise fund.

**Note 4 – Housing Authority (Discrete Component Unit) Federal Expenditures**

The Housing Authority federal expenditures are excluded from the SEFA because the Housing Authority’s federal expenditures are separately audited. Expenditures for the programs of the Housing Authority listed below are taken from the separately issued single audit report. The programs of the Housing Authority are as follows:

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture</b>		
Nutrition Services Incentive	10.570	\$ 31,175
<b>U.S. Department of Housing and Urban Development</b>		
Supportive Housing for Persons with Disabilities	14.181	216,000
Community Development Block Grant	14.218	31,123
Shelter Plus Care	14.238	2,003,671
Public and Indian Housing	14.850	811,419
Lower Income Housing Assistance Program:	14.856	
Section 8 Moderate Rehabilitation		1,987,336
Section 8 New Construction		929,409
Section 8 New Construction – Huff Gardens		335,357
Section 8 Housing Choice Vouchers	14.871	245,734,259
Public Housing Capital Fund	14.872	1,635,341
<b>U.S. Department of Labor</b>		
Welfare-to-Work Grants to States and Localities	17.253	
Welfare-to-Work (WtW) Grants		411,874
Rental assistance program		152,209
Total Federal Expenditures		<u>\$ 254,279,173</u>



**COUNTY OF SANTA CLARA**

Notes to the Schedule of Expenditures of Federal Awards (Continued)

For the Fiscal Year Ended June 30, 2004

**Note 5 – Food Stamps**

Food stamps expenditures of \$51,187,156 represent the face value of food stamps distributed to program participants. They do not represent cash expenditures in the County’s basic financial statements for the fiscal year ended June 30, 2004.

**Note 6 – Amount Provided to Subrecipients**

Of the federal expenditures presented in the SEFA, the County provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grants/Entitlement Grants	14.218	\$ 1,210,533
Emergency Shelter Grants Program	14.231	83,012
Shelter Plus Care	14.238	2,070,761
HOME Investment Partnerships Program	14.239	423,425
Juvenile Accountability Incentive Block Grants	16.523	462,228
Supervised Visitation, Safe Havens for Children	16.527	166,859
Bryne Formula Grant Program	16.579	129,844
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	588,279
Projects for Assistance in Transition from Homelessness	93.150	179,070
Substance Abuse and Mental Health Services, Projects of Regional and National Significance	93.243	50,331
Immunization Grants	93.268	225,485
Center for Disease Control and Prevention_ Investigations and Technical Assistance	93.283	20,200
Temporary Assistance for Needy Families	93.558	4,613,007
Refugee and Entrant Assistance - State Administered Programs	93.566	969,353
Chafee Foster Care Independent Living	93.674	891,304
HIV Emergency Relief Project Grants	93.914	1,400,691
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	59,949
HIV Prevention Activities - Health Department Based	93.940	357,189
Block Grants for Community Mental Health Services	93.958	95,000
Block Grants for Prevention and Treatment of Substance Abuse	93.959	5,172,454
State Domestic Preparedness Equipment Support Program	97.004	179,681
Emergency Management Performance Grants	97.042	32,546
State and Local All Hazards Emergency Operations Planning	97.051	43,742
Citizen Corps	97.053	9,665
Total		<u>\$ 19,434,608</u>

**COUNTY OF SANTA CLARA**

Notes to the Schedule of Expenditures of Federal Awards (Continued)

For the Fiscal Year Ended June 30, 2004

**Note 7 – Loans Outstanding**

The County participates in certain federal award programs that sponsor revolving loan programs, which are administered by the County. These programs maintain servicing and trust arrangements with the County to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest. The federal government has imposed certain continuing compliance requirements with respect to the loans rendered under the programs. The Schedule below reports the outstanding balance of loans from previous years that have continuing compliance requirements as of June 30, 2004 along with the value new loans made during the current year. Included in the prior year loans balance is new loans identified in the current year but funded in prior years.

The following is a summary of the loan programs maintained by the County and their balances at June 30, 2004:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Prior Year Loans With Continuing Compliance Requirements</u>	<u>New Loans</u>
Community Development Block Grants/Entitlement Grants	14.218	\$ 5,620,657	\$ 306,149
HOME Investment Partnerships Programs	14.239	7,800,956	90,493
		<u>\$ 13,421,613</u>	<u>\$ 396,642</u>

**COUNTY OF SANTA CLARA**  
Notes to the Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2004

**Note 8 - Schedules of the Office of Criminal Justice Planning (OCJP), California Victims Compensation & Government Claims Board, and California Department of Justice grant expenditure**

**OCJP grant expenditures:**

The following represents grant expenditures for Department of Justice grants passed through the State of California Office of Criminal Justice Planning for the fiscal year ended June 30, 2004.

Program Title and Expenditure Category	Grant Award Number	Budget	Actual Non-match	Actual Match	Actual Total	Variance
Juvenile Accountability Improvement Program	IP03010430					
Personal Services		\$ 430,190	\$ 456,620	\$ -	\$ 456,620	\$ (26,430)
Operating Expenses		309,329	282,899	-	282,899	26,430
Equipment		-	-	-	-	-
Total		<u>\$ 739,519</u>	<u>\$ 739,519</u>	<u>\$ -</u>	<u>\$ 739,519</u>	<u>\$ -</u>
Anti-Drug Abuse Enforcement Program	DC03140430					
Personal Services		\$ 119,043	\$ 119,043	\$ -	\$ 119,043	\$ -
Operating Expenses		47,788	47,788	-	47,788	-
Equipment		-	-	-	-	-
Total		<u>\$ 166,831</u>	<u>\$ 166,831</u>	<u>\$ -</u>	<u>\$ 166,831</u>	<u>\$ -</u>
Anti-Drug Abuse Enforcement Program	DC033Q0430					
Personal Services		\$ 442,452	\$ 441,769	\$ -	\$ 441,769	\$ 683
Operating Expenses		78,735	78,108	-	78,108	627
Equipment		66,026	66,026	-	66,026	-
Total		<u>\$ 587,213</u>	<u>\$ 585,903</u>	<u>\$ -</u>	<u>\$ 585,903</u>	<u>\$ 1,310</u>
Victim Witness Assistance - OCJP	VW03220430					
Personal Services		\$ 524,796	\$ 524,795	\$ -	\$ 524,795	\$ 1
Operating Expenses		117,809	112,433	-	112,433	5,376
Equipment		-	-	-	-	-
Total		<u>\$ 642,605</u>	<u>\$ 637,228</u>	<u>\$ -</u>	<u>\$ 637,228</u>	<u>\$ 5,377</u>

(Note: The non-match expenditures of \$739,519 \$166,831, \$585,903 and \$637,228 for grant IP03010430, DC03140430, DC033Q0430, and VW03220430, respectively, are reported as federal expenditures in the SEFA under the following CFDA numbers: 16.523, 16.579 and 16.575)

The following represents the State of California Office of Criminal Justice Planning summary grant expenditures for the fiscal year ended June 30, 2004. This information is included in the County's single audit report at the request of the State of California's Office of Criminal Justice Planning.

Program Title and Expenditure Category	Grant Award Number	Budget	Actual Non-match	Actual Match	Actual Total	Variance
Child Abuser Vertical Prosecution Program	VB03010430					
Personal Services		\$ 205,684	\$ 205,684	\$ -	\$ 205,684	\$ -
Operating Expenses		120	120	-	120	-
Equipment		-	-	-	-	-
Total		<u>\$ 205,804</u>	<u>\$ 205,804</u>	<u>\$ -</u>	<u>\$ 205,804</u>	<u>\$ -</u>
High Technology Identity Theft Program	HD01010430					
Personal Services		\$ 550,622	\$ 275,832	\$ -	\$ 275,832	\$ 274,790
Operating Expenses		843,621	283,308	-	283,308	560,313
Equipment		32,909	32,909	-	32,909	-
Total		<u>\$ 1,427,152</u>	<u>\$ 592,049</u>	<u>\$ -</u>	<u>\$ 592,049</u>	<u>\$ 835,103</u>
High Technology Theft Apprehension & Prosecution	HD03030430					
Personal Services		\$ 265,500	\$ 86,373	\$ -	\$ 86,373	\$ 179,127
Operating Expenses		540,375	200,138	-	200,138	340,237
Equipment		11,000	-	-	-	11,000
Total		<u>\$ 816,875</u>	<u>\$ 286,511</u>	<u>\$ -</u>	<u>\$ 286,511</u>	<u>\$ 530,364</u>
High Technology Theft Apprehension & Prosecution	HT03040430					
Personal Services		\$ 447,090	\$ 326,208	\$ -	\$ 326,208	\$ 120,882
Operating Expenses		2,019,910	1,182,453	-	1,182,453	837,457
Equipment		-	-	-	-	-
Total		<u>\$ 2,467,000</u>	<u>\$ 1,508,661</u>	<u>\$ -</u>	<u>\$ 1,508,661</u>	<u>\$ 958,339</u>

**COUNTY OF SANTA CLARA**  
Notes to the Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2004

**Note 8 - Schedules of the Office of Criminal Justice Planning (OCJP), California Victims Compensation & Government Claims Board, and California Department of Justice grant expenditures (Continued)**

High Technology Theft Apprehension & Prosecution	HT01020430					
Personal Services		\$ 570,394	\$ 108,273	\$ -	\$ 108,273	\$ 462,121
Operating Expenses		4,079,505	1,600,393	-	1,600,393	2,479,112
Equipment		381,588	254,920	-	254,920	126,668
Total		<u>\$ 5,031,487</u>	<u>\$ 1,963,586</u>	<u>\$ -</u>	<u>\$ 1,963,586</u>	<u>\$ 3,067,901</u>

**California Victims Compensation & Government Claims Board grant expenditures**

The following represents the California Victims Compensation & Government Claims Board grant expenditures for the fiscal year ended June 30, 2004. This information is included in the County's single audit report at the request of the California Victims Compensation & Government Claims Board.

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
Victim Witness Assistance - BOC	BOC-3059					
Personal Services		\$ 917,245	\$ 913,931	\$ -	\$ 913,931	\$ 3,314
Operating Expenses		160,005	154,344	-	154,344	5,661
Equipment		-	-	-	-	-
Total		<u>\$ 1,077,250</u>	<u>\$ 1,068,275</u>	<u>\$ -</u>	<u>\$ 1,068,275</u>	<u>\$ 8,975</u>
Victim Witness Restitution for Crime Victims	BOC-3077					
Personal Services		\$ 143,942	\$ 143,942	\$ -	\$ 143,942	\$ -
Operating Expenses		1,352	666	-	666	686
Equipment		-	-	-	-	-
Total		<u>\$ 145,294</u>	<u>\$ 144,608</u>	<u>\$ -</u>	<u>\$ 144,608</u>	<u>\$ 686</u>

**California Department of Justice grant expenditures**

The following represents the California Department of Justice grant expenditures for the fiscal year ended June 30, 2004. This information is included in the County's single audit report at the request of the California Department of Justice.

<u>Program Title and Expenditure Category</u>	<u>Grant Award Number</u>	<u>Budget</u>	<u>Actual Non-match</u>	<u>Actual Match</u>	<u>Actual Total</u>	<u>Variance</u>
Spousal Abuser Prosecution Program	02SA09B030					
Personal Services		\$ 28,404	\$ 18,640	\$ 9,764	\$ 28,404	\$ -
Other		28,840	28,840	-	28,840	-
Total		<u>\$ 57,244</u>	<u>\$ 47,480</u>	<u>\$ 9,764</u>	<u>\$ 57,244</u>	<u>\$ -</u>
Spousal Abuser Prosecution Program	03SA10B030					
Personal Services		\$ 28,028	\$ 18,785	\$ 9,243	\$ 28,028	\$ -
Other		28,768	28,768	-	28,768	-
Total		<u>\$ 56,796</u>	<u>\$ 47,553</u>	<u>\$ 9,243</u>	<u>\$ 56,796</u>	<u>\$ -</u>



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The Honorable Members of the
Board of Supervisors of the
County of Santa Clara
San Jose, California

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

We have audited the financial statements of the governmental activities, the business-type activities,
each major fund and the aggregate discretely presented component units and remaining fund information
of the County of Santa Clara, California, (the County), as of and for the fiscal year ended
June 30, 2004, which collectively comprise the County's basic financial statements and have issued our
report thereon dated December 3, 2004. Our report included an explanatory paragraph due to the
County adopting the retroactive reporting of all major general infrastructure assets provisions of
Governmental Accounting Standards Board (GASB) Statement No.34, Basic Financial Statements -
Management's Discussion and Analysis - for State and Local Governments as of July 1, 2003. We did
not audit the financial statements of the FIRST 5 Santa Clara County; the County Sanitation
Districts 2 - 3 of Santa Clara County; the Santa Clara County Vector Control District; the Santa Clara
County Central Fire Protection District; and the Los Altos Hills County Fire District, which represent
the following percentages of assets, net assets and revenues as of and for the fiscal year ended
June 30, 2004:

Table with 4 columns: Opinion Unit, Assets, Net Assets, Revenues. Rows include Governmental activities, Business-type activities, and Aggregate discretely presented component units and remaining fund information.

Those financial statements were audited by other auditors whose reports thereon have been furnished to
us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the
report of the other auditors. We conducted our audit in accordance with 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.

### *Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as 2004 (a).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting which we have reported to management of the County in a separate letter dated December 3, 2004.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Supervisors, County management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macios, Gini & Company LLP*

Certified Public Accountants

Walnut Creek, California  
December 3, 2004



## MACIAS GINI & COMPANY<sup>LLP</sup>

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The Honorable Members of the  
Board of Supervisors of the  
County of Santa Clara  
San Jose, California

### **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

#### *Compliance*

We have audited the compliance of County of Santa Clara, California (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include the operations of the Housing Authority of the County of Santa Clara (Housing Authority), which expended \$254,279,173 in federal awards, which is not included in the schedule of expenditures of federal awards (SEFA) for the fiscal year ended June 30, 2004. Our audit, described below, did not include the operations of the Housing Authority because we audited and reported on the Housing Authority in accordance with OMB Circular A-133 as a separate engagement.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2004-01, 2004-02, 2004-03 and 2004-04.

### *Internal Control Over Compliance*

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-01 and 2004-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Supervisors, County management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macias, Dini & Company LLP*

Certified Public Accountants

Walnut Creek, California  
January 17, 2005



**COUNTY OF SANTA CLARA**  
 Schedule of Findings and Questioned Costs  
 For the Fiscal Year Ended June 30, 2004

**Section I – Summary of Auditor’s Results**

***Financial Statements:***

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

***Federal Awards:***

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes
Identification of major programs:	
CFDA #10.551 & 10.561	Food Stamps Cluster
CFDA #14.218	Community Development Block Grant
CFDA #93.658	Foster Care Title IV-E
CFDA #97.004	State Domestic Equipment Support Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	Yes

**COUNTY OF SANTA CLARA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2004

**Section II – Financial Statement Findings**

**Finding No. 2004 (a) - Loans Receivables**

**Observation** - The County sponsors low income-housing loan programs funded through its Rental Rehabilitation Program, Community Development Block Grant (CDBG) Rehabilitation Revolving Loan Program, HOME Investment Partnership Program, and Housing Trust Fund. Although the disbursements of these long-term loans and the loan repayments are properly recorded in the fund financial statements as sources and uses of funds, the County does not have an accurate list of these outstanding loan balances and an analysis of the collectibility of these loans. Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) requires these long-term loan receivables less an allowance for uncollectible loans be presented in the government-wide financial statements. Our audit noted that the County's list of long-term housing loans is not complete or accurate. We also noted instances when loan receipts were not properly applied against outstanding loan balances.

**Recommendation** – We recommend that the Office of Affordable Housing (OAH) implement procedures to better track loan balances as the OAH funds and collects on the loans. Included as part of the procedures should be a review of the cumulative amount funded to the promissory note held by the County. In addition, the County should implement reconciliation processes to ensure that the detailed loan receivable records reflect balances that are collectable and correspond to the amount reported in the general ledger.

***Management Response from the Office of Affordable Housing:***

The Office of Affordable Housing (OAH) agrees with the audit recommendation regarding loan receivables in low income housing programs and has taken the following actions:

1. Established procedures to track balances as OAH funds and collects on all loans.
2. Established procedures to reconcile OAH loan balances with the general ledger (SAP) on a monthly basis.
3. Developed a work plan to review all past loan records for accuracy and completeness:
  - a. Complete 2000-2005 records by June 30, 2005
  - b. Complete all records by June 30, 2006. Included in the review will be verification of cumulative amount funded and the collectibility of all promissory notes.
4. Will work with the ASAP Team in the Controller's office to explore the feasibility of tracking loan receivables and balances within SAP.
5. Will explore the feasibility of purchasing specialized software to simplify accounting and reporting of loan receivables.

**COUNTY OF SANTA CLARA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2004

**Section III Federal Award Findings and Questioned Costs**

**Finding No. 2004-01 Schedule of Expenditures of Federal Awards (Completeness)**

***Finding:***

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* (OMB Circular A-133), requires that the County prepare a schedule showing total expenditures for the year for each federal program. OMB Circular A-133 also requires identification of amounts provided to subrecipients for each federal program either on the Schedule of Expenditures of Federal Awards (SEFA) or in the notes to the SEFA.

During our review of the SEFA, we noted that the Supervised Visitation, Safe Havens for Children program (CFDA 16.527) in the amount of \$166,859 had not been identified or included in the SEFA schedules in the current year and the County excluded the Public Assistance Grants program (CFDA 97.036) in the amount of \$786,260 from the prior year's SEFA. In addition, we noted that departments have not disclosed the total amount provided to subrecipients for the following programs:

- 14.238 Shelter Plus Care - \$2,070,761;
- 16.527 Supervised Visitation, Safe Havens for Children - \$166,859;
- 16.579 Bryne Formula Grant Program - \$129,844;
- 93.283 Center for Disease Control & Prevention –  
Investigations and Technical Assistance - \$20,200; and
- 93.918 Grants to Provide Outpatient Early Intervention  
Services With Respect to HIV Disease - \$59,949.

Due to the lack of centralized oversight and proper tools available to track grants, the County's SEFA was understated by programs not identified as federal awards and the County's report has excluded the amounts provided to subrecipients. As part of the interim solution, the County currently is utilizing a grant-monitoring SAP project module with limited capabilities to maintain its grants records until SAP grant module is developed by the County's software vendor (SAP Global).

***Questioned Cost***

Not applicable.

***Recommendation:***

We recommend that the County provides additional resources to the Controller's Office to oversee the SEFA preparations process to ensure that all federal programs and amounts provided to subrecipients are identified and captured in the County's Single Audit Reports. In addition, the County should complete the implementation of the SAP grant modules and begin utilizing all the encompassing functions in tracking the County's grants.

***Management Response from the Controller's Office:***

The Controller's Office compiles the Schedule of Expenditures of Federal Awards (SEFA) based on information provided by the departments. In addition to providing annual year-end training to the departments, we also provide comprehensive instructions on information to be included in SEFA. Even a fully functional SAP grants management module will not allow us to effectively monitor grants

**COUNTY OF SANTA CLARA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2004

countywide without additional resources. To ensure the integrity of SEFA, we will have to monitor that departments properly setup grants and subrecipients in SAP, and accurately record all grants-related revenues and expenditures in a timely manner. This will require additional staff. The current SAP grants module was developed for the local educational agencies, such as school districts. It does not fully address the grants monitoring needs for local governments like the County. SAP is currently working on a revision of the grants management module that would meet our needs. Meanwhile, more and more departments are beginning to track grants through the SAP project module. To continually improve the SEFA quality, we will require the departments to provide reasons for not submitting accurate and complete SEFA information. We will work with the auditors in identifying such departments.

**Finding No. 2004-02**                      **97.004 – State Domestic Preparedness Equipment Support Grant - Reporting**

***Finding:***

In accordance with State Domestic Preparedness Equipment Support Grant, administered by the Office of Sheriff and Office of Emergency Services, record retention requirements (Title 28, CFR, Part 66.42), the County's records must be retained for three years from the starting date. In addition, the requirements also state that when grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period.

During the performance of our test work over reporting, we noted discrepancies between expenditures incurred by the Office of Emergency Services and what was reported in the state reports. In addition, in preparing these reports, we noted that reconciliations were not performed between the reports and the accounting records.

***Questioned Costs:***

\$67,026

***Recommendation:***

The Office of the Emergency Services should review its reporting process and require that any report prepared be adequately supported. This support should be filed in an organized fashion to meet the federal record retention requirements.

***Management Response from the Office of the Sheriff:***

The Sheriff's Office and the Office of Emergency Services concur that there were discrepancies between the amounts in the reimbursement claim and state performance reports. The two offices further concurs with the recommendation to review the reporting process, perform reconciliation of the reports, see that reports are supported by documents and schedules and they are to be maintained in an organized fashion to meet federal record requirements.

Accordingly, the Office of Emergency Services and Sheriff's Office have collaboratively reviewed the reporting process and made the following changes:

**COUNTY OF SANTA CLARA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2004

- We have begun, effective 6/1/04, and will continue to retain on file, all supporting source documentations and report reconciliation, including working papers
- Since the meeting with Macias Gini & Company LLP, there have been three reporting periods and each time staff from Office of Emergency Services and from the Office of the Sheriff worked jointly in reviewing and accounting for purchase and other financial records that reconcile the amount in the reimbursement and state performance grant reports. It is anticipated that this process will continue into future reporting periods.

**Finding No. 2004-03**                      **97.004 – State Domestic Preparedness Equipment Support Grant – Subrecipient Monitoring**

***Finding:***

In accordance with OMB Circular A-133, grantees are required to ensure that subrecipients who ultimately expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period. The grantee is further required to issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

During our audit of the State Domestic Preparedness Equipment Support Grant, administered by the Office of the Sheriff and the Office of Emergency Services, we noted the County required two subrecipients (City of San Jose and Town of Los Gatos) receiving State Domestic Preparedness Equipment Support Grant to submit single audit reports for fiscal year 2004. However, the Office of the Sheriff did not obtain nor review the most recent single audit reports to determine if the subrecipients had a completed audit within the required time frame, or ascertain if these subrecipients had findings or questioned costs related to the grants provided.

***Questioned Costs:***

Undeterminable.

***Recommendation:***

The Office of the Sheriff should acquire the missing single audit reports and should follow their current procedures to determine which subrecipients are required to have a single audit and to ensure that the subrecipients are audited within 9 months of the end of the subrecipient's audit period. In addition, the Office of the Sheriff should follow up on any findings that arise as a result of these audits within 6 months after receipt of the subrecipient's audit report and take timely and appropriate corrective action on all audit findings.

***Management Response from the Office of the Sheriff:***

We concur with the audit finding. We have acquired and reviewed the most recent single audit reports for the City of San Jose and the Town of Los Gatos.

**COUNTY OF SANTA CLARA**  
Schedule of Findings and Questioned Costs (Continued)  
For the Fiscal Year Ended June 30, 2004

**Finding No. 2004-04**                      **97.004 – State Domestic Preparedness Equipment Support Grant - Procurement**

***Finding:***

In accordance with the OMB Circular A-133 procurement, suspension and debarment compliance requirements, non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all non-procurement transactions (e.g., subawards to subrecipients).

During our audit of the State Domestic Preparedness Equipment Support Grant, administered by the Office of the Sheriff and the Office of Emergency Services, we noted that one vendor and four subrecipients meet the “covered transaction” criteria. However, the County’s procurement department did not have evidence certifying that the vendor or subrecipients were not suspended or debarred. In addition, the County’s procurement department does not appear to have procedures to determine if a contractor is listed in the grantor’s General Service Agency’s (GSA) “List of Parties Excluded From Federal Procurement or Non Procurement Programs.”

***Questioned Costs:***

Undeterminable

***Recommendation:***

We recommend that the County’s procurement department include language in all of its contracts that use federal funding the requirement that contractors and subrecipients certify that they are not suspended or debarred in compliance with the OMB Circular A-133. We also recommend that the County’s procurement department implement procedures to periodically review the grantor’s GSA’s “List of Parties Excluded From Federal Procurement or Non Procurement Programs” to update the suspended or debarred status of its contractors and subrecipients, on a regular basis.

***Management Response from the County’s Procurement Department:***

Procurement will work with County Counsel to determine the necessary language to address this issue before June 30, 2005. Procurement has used the debarment language on a limited basis as required for Social Services Agency and Health and Hospital System contracts. Procurement staff will be trained and reminded to ask for grant requirements when departments specify that grant funds is utilized to acquire the products and services.

**COUNTY OF SANTA CLARA**  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2004

**Reference Number:**           **2003-01**

Federal Catalog Number:       20.205 – Highway Planning & Construction

Audit Finding:                   Davis Bacon: Several certified payroll reports were not submitted on a weekly basis.

Status of Corrective Action:   Corrected.

**Reference Number:**           **2003-02**

Federal Catalog Number:       93.558 – Temporary Assistance for needy families (TANF)

Audit Finding:                   Special Test and provision of "Penalty for refusal to Work" and "Child Support Non-cooperation"  
In 3 cases out of 40 cases tested for penalty for refusal to work and for 2 cases out of 40 tested for child support non cooperation, no notice of action forms were sent out to the affected participants.

Status of Corrective Action:   Corrected.

**Reference Number:**           **2003-03**

Federal Catalog Number:       93.914 – HIV Emergency Relief Project Grants  
93.563 – Child Support Enforcement

Audit Finding:                   Procurement, Suspension & Debarment: Several contracts did not contain requirements to certify that the contractors were not suspended or debarred.

Status of Corrective Action:   93.914 – Corrected.  
93.563 – Corrected.