COUNTY OF EL DORADO
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED JUNE 30, 2017

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COUNTY OF EL DORADO
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For The Year Ended June 30, 2017

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MEMORANDUM ON INTERNAL CONTROL

To the Board of Supervisors of
the County of El Dorado
Placerville, California

We have audited the basic financial statements of the County of El Dorado (County) for the year ended June 30, 2017, and have issued our report thereon dated March 28, 2018. Our opinions on the basic financial statements and this report, insofar as they relate to the component units El Dorado County Transit Authority (EDCTA), Children and Families Commission (First 5), and El Dorado County Transportation Commission (EDCTC), are based solely on the reports of other auditors. In planning and performing our audit of the basic financial statements of the County of El Dorado as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County'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 deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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The Schedule of Material Weaknesses, Significant Deficiencies and Other Matters and Status of Prior Material Weaknesses, Significant Deficiencies and Other Matters for the EDCTA, First 5 and EDCTC were provided by the other auditors, as we did not audit those entities, are based solely on the report of other auditors.

This communication is intended solely for the information and use of management, Board of Supervisors, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards* and is not intended to be and should not be used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, California
March 28, 2018

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2017-01 Schedule of Federal Expenditures (SEFA) Preparation

Criteria: In accordance with the requirements of OMB Uniform Guidance 200.510(b), the County is responsible for reporting all federal awards expended in the Schedule of Expenditures of Federal Awards (SEFA) each fiscal year. In addition, Section 200.17 of the Uniform Guidance indicates that clusters of programs, meaning a grouping of closely related programs that share common compliance requirements, must be identified on the SEFA and any "other clusters" designated by a State grantor must be considered as one program for determining major programs.

Condition: The original SEFA work-paper provided by the County for audit included one program that is not subject to the requirement of Uniform Guidance and one "other cluster" that did not include programs designated by State grantor, as follows:

- The original SEFA work-paper included a federal award total of $523,824 for CFDA #15.226, *Payments in Lieu of Taxes,* from the Department of the Interior. This program has been assigned a CFDA number to facilitate payments to receiving agencies under automatic distributions authorized by 31 U.S.C. 6901-6907. However, the program is excluded from coverage under 2 CFR § 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and should not have been include on the SEFA.

- The original SEFA work-paper reported the Department of Health and Human Services *Aging Cluster* as CFDA #s 93.044, 93.045 and 93.053 with total federal awards of $833,338, and reported CFDA #s 93.041, 93.042, 93.043 and 93.052 with federal awards totaling $153,945 as separate from the *Aging Cluster*. However, in accordance with the requirements of 2 CFR § 200.17, Exhibit E of the County's grant agreement with the California Department of Aging Health and Human Services Agency indicates that all seven CFDA's under the grant agreement should be considered one "other cluster".

The revisions to the SEFA necessitated by the corrections above changed our audit planning, including which programs were determined to be major or tested programs in fiscal year 2017.

Cause: The County staff was not made aware of the State-designated clusters, and the County was requested by the previous external auditors to include the *Payments in Lieu of Taxes* program in the SEFA.

Effect: The County is not in compliance with the SEFA preparation requirements of Uniform Guidance (2 CFR § 200), and our planning for the Single Audit tested (major) programs was affected.

Recommendation: The County should develop procedures to determine that all programs reported on the SEFA comply with any State-grantor designations of "other clusters," and also ensure that all programs reported are subject to Uniform Guidance and inclusion on the SEFA.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2017-01 Schedule of Federal Expenditures (SEFA) Preparation (Continued)

Management's Response (Provided by Management):
The County's final presentation of the 2017 SEFA has excluded the Payments in Lieu of Taxes program and has identified State-designated Aging Cluster. For the future reporting, we will ask the County departments to exclude from SEFA any programs that are not under the audit requirements of 2 CFR Part 200. Further, we will request the County departments to identify any State-designated clusters on the SEFA questionnaire.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2017-02 Developing Funding Plans for Net Position Deficit

Criteria: At June 30, 2017, one of the County's funds reported an unrestricted net position deficit. The County should develop funding plans for the deficit.

Condition: The Risk Management Internal Service Fund reports a net position deficit of $71.5 million as of June 30, 2017, which was a net position decrease of $3.7 million from the prior fiscal year.

Cause: The majority of the increase in the deficit is due to the change in the liability for Other Post-Employment Benefits (OPEB) which increased $5.9 million during the fiscal year.

Effect: The County's Internal Service Fund has a running deficit for many years.

Recommendation: The County should develop plans for funding the deficit to ensure cash is available when the OPEB liability come due.

Management's Response (Provided by Management):
The operating loss is primarily attributable to the recognition of the OPEB (Other Post-Employment Benefits) Retiree Health obligation, which currently shows a total liability of $87 million. In 2010 the County adopted a practice of meeting the annual requirement on a pay-as-you-go basis. In May of 2015, the Board of Supervisors adopted a budget policy regarding funding of OPEB obligations. This policy was updated in November of 2017: "El Dorado County shall continue the policy of "pay as you go" to fund the County's OPEB liability. OPEB costs will be allocated to the respective County departments based on a State-approved allocation formula. The Board may modify this policy at any time, to allocate un-appropriated discretionary resources to fund the OPEB liability, to set funds aside to fund future years' liabilities, or to begin funding on-going OPEB liabilities by establishing a pre-funding trust." The County will be considering establishing a pre-funding trust in the coming year, and may adopt a policy of pre-funding in order to address the OPEB liability.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2017-03 Uniform Guidance Procurement Standards

The County is required to implement changes to its procurement policies and procedures in accordance with the Uniform Guidance procurement standards in 2 CFR 200.317 through 200.326 for any federally funded procurements beginning on or after July 1, 2018.

Since the County receives federal awards, a few of the general standards over procurement include:

- The County must have documented procurement procedures that reflect federal law, Uniform Guidance standards, and any state regulations.

- The County must maintain an appropriate level of oversight to ensure that contractors perform in accordance with the terms of their contracts or purchase orders.

- Written conflict-of-interest policies are required. No employee or agent of the County may participate in the selection, award, or administration of a contract funded by federal grant dollars if he or she has an actual or apparent conflict of interest.

- Entities should focus on the most economical solution during the procurement process, and must avoid using federal funds for the acquisition of unnecessary items. Organizations are encouraged to consider the use of shared services and intergovernmental agreements to foster greater economy and efficiency.

- The County must maintain records sufficient to detail the history of procurement, including the rationale for the method of procurement, contract type, and the basis for the contractor selection or rejection and price.

In addition to other requirements, the Uniform Guidance also requires full and open competition. Contractors who assist in drafting specifications for invitations for bids or requests for proposals (RFP) must be excluded from competing for those procurements.

The Uniform Guidance also outlines five methods of procurement to be followed for federally funded projects:

- Micro-purchase: Purchases where the aggregate dollar amount does not exceed $3,000 (or $2,000 if the procurement is construction and subject to Davis-Bacon). When practical, the County should distribute micro-purchases equitably among qualified suppliers. No competitive quotes are required if management determines that the price is reasonable.

- Small purchase: Includes purchases up to the Simplified Acquisition threshold, which is currently $150,000. Informal purchasing procedures are acceptable, but price or rate quotes must be obtained from an adequate number of qualified sources.

- Sealed bids (formal advertising): Used for purchases over the Simplified Acquisition Threshold, which is currently $150,000. Under this purchase method, formal solicitation is required, and the fixed price (lump sum or unit price) is awarded to the responsible bidder who conformed to all material terms and is the lowest in price. This method is the preferred procurement method for construction contracts if certain provisions apply.

2017-03 Uniform Guidance Procurement Standards (Continued)

- Competitive proposals: Used for purchases over the Simplified Acquisition Threshold, which is currently $150,000. This procurement method requires an adequate number of qualified sources submitting an offer for either a fixed-price or cost-reimbursement contract, and is used when sealed bids are not appropriate. The contract should be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.

- Noncompetitive proposals: Also known as sole-source procurement, this may be appropriate only when specific criteria are met. Examples include when an item is available only from a single source, when a public emergency does not allow for the time of the competitive proposal process, when authorized by the federal awarding agency, or after a number of attempts at a competitive process, the competition is determined to be inadequate.

The provisions above are just highlights from the new procurement standards and the County should ensure that all of the procurement standards in the Uniform Guidance have been reviewed and that the applicable policies and procedures in place for fiscal year 2019.

Management's Response:

El Dorado County will continue to observe federal requirements for federally funded projects.

Regarding Federal Spending Thresholds:

The 2018 National Defense Authorization Act (NDAA), signed by President Donald Trump on December 12, 2017 increases the standard Federal micro-purchase threshold applicable to **civilian agencies** from $3,000 to $10,000 and increased the small purchase threshold from $150,000 to $250,000. This is not exclusive to DOD and includes all **civilian agencies**.

Regarding Conflict of Interest:

El Dorado County already has and will continue to enforce a conflict of interest policy in its C-17 Purchasing Policy and Procedures. This applies to all contracts regardless of funding source.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2017-04 Senate Bill 1029 - California Debt and Investment Advisory Accountability Reports

Senate Bill 1029 adopted in September 2016 is effective January 1, 2017 and amends Government Code Section 8855 that created the California Debt and Investment Advisory Commission (CDIAC).

SB1029 indicates that: State and local agencies should adopt comprehensive written debt management policies pursuant to the recommendation of the Government Finance Officers Association, a professional organization of over 18,000 public officials united to enhance and promote the professional management of governmental financial resources. These policies should reflect local, state, and federal laws and regulations.

SB1029 also indicates that it is the intent of the Legislature that all debt issuance of state and of local governments be published in a single, transparent online database that allows the citizens of California to analyze, interpret, and understand how debt authorized by the public is utilized to finance facilities and services at the state and local level.

The first annual debt transparency report is due January 31, 2018 for the year ended June 30, 2017, if the County issues debt during that period. The reporting requirements are triggered when debt is issued and continue until the debt is no longer outstanding or the proceeds have been fully spent.

The County should review the provisions of Government Code Section 8855 to ensure the necessary debt policy(ies) are in place and procedures are developed to implement the required annual debt transparency report to CDIAC when it is applicable.

Management's Response:
The County is aware of the requirements of SB 1029 and will fully comply with the requirements by the mandated dates.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

EFFECTIVE FISCAL YEAR 2017/18:

GASB 75 – ***Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

GASB 75 – ***Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions (Continued)***

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of OPEB measurements.
- Explanations of how and why the OPEB liability changed from year to year will improve transparency.
- The summary OPEB liability information, including ratios, will offer an indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any.
- For employers that provide benefits through OPEB plans that are administered through trusts that meet the specified criteria, the contribution schedules will provide measures to evaluate decisions related to contributions.

The consistency, comparability, and transparency of the information reported by employers and governmental nonemployer contributing entities about OPEB transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return

GASB 75 – ***Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions (Continued)***

- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations.

- Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms

- Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period.

GASB 81 – ***Irrevocable Split-Interest Agreements***

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

SCHEDULE OF OTHER MATTERS

GASB 85 – ***Omnibus 2017***

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 86 – ***Certain Debt Extinguishment Issues***

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

In-Substance Defeasance of Debt Using Only Existing Resources

Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

Prepaid Insurance Related to Extinguished Debt

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

Additional Disclosure for All In-Substance Defeasance Transactions

One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL YEAR 2018/19:

GASB 83 – *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

GASB 83 – *Certain Asset Retirement Obligations (Continued)*

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

EFFECTIVE FISCAL YEAR 2019/20:

GASB 84 – *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL YEAR 2020/21:

GASB 87 – ***Leases***

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF PRIOR YEAR OTHER MATTER

2016-01 Outdated Authorized Signers with the County's Banking Institutions

Criteria- All authorized signers of the County's cash and investment accounts should be current employees or officials of the County. Employees or officials that have been departed from the County should be removed from the accounts immediately.

Condition – During our final audit, we noted the following instances where the County's signature cards were outdated:

- Six banking institutions still had the prior Assistant Treasurer listed as an authorized signer on June 30, 2016 despite that individual having left the County on October 16, 2015.
- Three banking institutions still listed a former employee of the County Treasurer's Office as an authorized signer on June 30, 2016 despite that individual not being employed at the County since December 2011.

Cause – The outdated signature cards are in relation to Certificates of Deposit the County has purchased from several banking institutions prior to the above noted individuals leaving the County. Because of the nature of these types of purchases, buy and hold till maturity, the County did not consider the need to update these accounts.

Effect – Allowing former employees stay as authorized signers exposes the County to the possibilities of unauthorized transactions due to fraud and abuse.

Recommendation – We recommend the County update their signature cards as soon as possible to reflect the appropriate personnel as authorized signers. In the future, a step should be added to the County's employee exit checklist to ensure the appropriate banks are notified immediately of an employee's departure.

Current Status: The County has updated the signature cards for all its banking institutions with current and active personnel.

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REQUIRED COMMUNICATIONS

To the Board of Supervisors of
the County of El Dorado
Placerville, California

We have audited the basic financial statements of El Dorado County for the year ended June 30, 2017. We did not audit the component unit financial statements of the El Dorado County Transportation Authority (EDCTA), Children & Families Commission (First 5) and the El Dorado County Transportation Commission (EDCTC) and which collectively represent 4.0%, 6.7% and 5.8% of the assets, net position and revenues, respectively, of the primary government. These component unit 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 these entities, is based solely on the reports of these other auditors.

Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

GASB 77 – ***Tax Abatement Disclosures***

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues.

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This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients

- The gross dollar amount of taxes abated during the period

- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements

- The specific taxes being abated

- The gross dollar amount of taxes abated during the period.

The pronouncement became effective, and applicable agreements are disclosed in Note 14 to the financial statements.

GASB 82 – *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The pronouncement became effective, but did not have a material effect on the financial statements, and only affected the Pension-Related Required Supplementary Information.

The following pronouncements became effective, but did not have a material effect on the financial statements:

GASB 73 – ***Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68***

GASB 74 – ***Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans***

GASB 78 – ***Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans***

GASB 79 – ***Certain External Investment Pools and Pool Participants***

GASB 80 – ***Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14***

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the County's financial statements were:

> *Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 11 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the County. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
>
> *Estimated Net OPEB Liability:* Management's estimate of the net OPEB liability is disclosed in Note 12 to the financial statements and is based on actuarial study determined by a consultant, which is based on the experience of the County. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
>
> *Estimated Fair Value of Investments:* As of June 30, 2017, the County held approximately $506 million of cash and investments as measured by fair value as disclosed in Note 2 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2017. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2017.
>
> *Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 1H to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
>
> *Estimate of Compensated Absences:* Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Notes 1J and 6 to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.
>
> *Estimated Landfill Closure Liability:* Management's estimate of the landfill closure liability is disclosed in Note 9 to the financial statements and is based on the County's estimate of future post-closure maintenance and corrective action costs required by its agreement with CalRecycle. We evaluated the key factors and assumptions used to develop the landfill closure liability in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> *Estimated Claims Liabilities:* Management's estimate of the claims liabilities payable is disclosed in Note 13 to the financial statements and is based on actuarial studies determined by a consultant, which are based on the claims experience of the County. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Board of Supervisors.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated March 28, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the supplementary information which accompany the financial statements, but are not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Maze + Associates

Pleasant Hill, California
March 28, 2018