




**AMADOR COUNTY
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April 7, 2017

MEMORANDUM

TO: Amador County Board of Supervisors

FROM: Chuck Iley, County Administrative Officer 

RE: Request from Drytown Water District for Modified Audit Requirements

The County has received a request from the Drytown Water District to modify their audit requirements in accordance with the newly passed AB 2613, which modified the audit requirements for certain special districts in certain situations. The Government Code that sets forth the audit requirements for special districts is attached.

Background:

The item that Drytown is asking about lies in 26909(c)(1), and it allows the annual audit requirement to be replaced with a financial review or a few other options. Unfortunately, the Code also requires that the annual revenues not exceed (\$150,000), which it does not in Drytown's case AND that all of the special district's revenues and expenditures are run through the County's financial system, which Drytown does not use.

This means that Drytown does not qualify for the financial review option that was just added to the code. The benefit of that option is limited, as well, as it still requires a five year audit on top of the financial review. The BOS has the option to go to a five year audit if it should so desire, but the option must be unanimously approved by the Water District and the Board of Supervisors. The conditions of such approval are also subject to approval by the Auditor.

The Board does have the authority to mimic the requirements set forth by the Government Code despite the fact that the Drytown Water District does not meet the requirements of the Code for 26909 (c)(1) or (d)(1). The Board could require a financial review by the Auditor as a condition of the five year audit, which can be approved under 26909(b). All of this must be approved by unanimous vote of the Water District as well as the Board of Supervisors, and the conditions would be subject to approval by the Auditor. Additionally, the Special District must reimburse the Auditor for all costs associated with these options.

Recommendation:

One major item of concern is the fact that the County has no previous audits for the Drytown Water District on file. We do not know whether the audits have been clean and simply not sent to the County, or whether they have not been done. As such, staff cannot make a recommendation as to whether the District historically operates within accounting standards or not. The Board should have this information before considering whether to relax any audit requirements for the special district. Staff would only recommend relaxing the requirements if the District has demonstrated a history of following their internal processes and controls.

DRYTOWN COUNTY WATER DISTRICT

Assembly Bill 2613

Assembly Bill 2613 provides audit cost relief to small Special Districts.

Assembly Bill 2613 is a new law that takes effect on January 1, 2017. The District must meet the following requirements:

- (1) All of the Special Districts revenues and expenditures are transacted through the County's Financial System, and
- (2) The Special District Annual Revenues do not exceed \$150,000.00.

Existing law requires every Special District to have an annual audit, a biennial audit, an audit performed every five years, or for Districts with Annual Revenues of \$150,000.00 or less, they may have a financial review performed instead of an audit (if approved by the local County Board of Supervisors).

Drytown County Water District's Annual Revenues for the June 30, 2016 fiscal period were \$68,892.64.

Therefore the Drytown County Water District Board of Directors is making a motion to approve the District to have a Financial Review performed in lieu of an audit. Our request will have to go before the Board of Supervisors for Approval.

Motion made by Michael Borunda [Signature] 4-6-17
Motion Seconded by Seamus Kay [Signature] 4-6-17
Motion Carried Unanimous Vote

5 yes 0 No 0 Absent



GOVERNMENT CODE - GOV

TITLE 3. GOVERNMENT OF COUNTIES [23000 - 33205] (Title 3 added by Stats. 1947, Ch. 424.)

DIVISION 2. OFFICERS [24000 - 28085] (Division 2 added by Stats. 1947, Ch. 424.)

PART 3. OTHER OFFICERS [26500 - 27758] (Part 3 added by Stats. 1947, Ch. 424.)

CHAPTER 4. Auditor [26900 - 26946] (Chapter 4 added by Stats. 1947, Ch. 424.)

ARTICLE 1. Duties Generally [26900 - 26914] (Article 1 added by Stats. 1947, Ch. 424.)

26909. (a) (1) The county auditor shall either make or contract with a certified public accountant or public accountant to make an annual audit of the accounts and records of every special district within the county for which an audit by a certified public accountant or public accountant is not otherwise provided. In each case, the minimum requirements of the audit shall be prescribed by the Controller and shall conform to generally accepted auditing standards.

(2) If an audit of a special district's accounts and records is made by a certified public accountant or public accountant, the minimum requirements of the audit shall be prescribed by the Controller and shall conform to generally accepted auditing standards, and a report thereof shall be filed with the Controller and with the county auditor of the county in which the special district is located. The report shall be filed within 12 months of the end of the fiscal year or years under examination.

(3) Any costs incurred by the county auditor, including contracts with, or employment of, certified public accountants or public accountants, in making an audit of every special district pursuant to this section shall be borne by the special district and shall be a charge against any unencumbered funds of the district available for the purpose.

(4) For a special district that is located in two or more counties, this subdivision shall apply to the auditor of the county in which the treasury is located.

(5) The county controller, or ex officio county controller, shall effect this section in those counties having a county controller or ex officio county controller.

(b) A special district may, by unanimous request of the governing board of the special district and with unanimous approval of the board of supervisors, replace the annual audit required by this section with one of the following, performed in accordance with professional standards, as determined by the county auditor:

(1) A biennial audit covering a two-year period.

(2) An audit covering a five-year period if the special district's annual revenues do not exceed an amount specified by the board of supervisors.

(3) An audit conducted at specific intervals, as recommended by the county auditor, that shall be completed at least once every five years.

(c) (1) A special district may, by unanimous request of the governing board of the special district and with unanimous approval of the board of supervisors, replace the annual audit required by this section with a financial review, or an agreed-upon procedures engagement, in accordance with the appropriate professional standards, as determined by the county auditor, if the following conditions are met:

(A) All of the special district's revenues and expenditures are transacted through the county's financial system.

(B) The special district's annual revenues do not exceed one hundred fifty thousand dollars (\$150,000).

(C) The special district shall pay for any costs incurred by the county auditor in performing an agreed-upon procedures engagement. Those costs shall be charged against any unencumbered funds of the district available for that purpose.

(2) If the board of supervisors is the governing board of the special district, it may, upon unanimous approval, replace the annual audit of the special district required by this section with a financial review, or an agreed-upon procedures engagement, in accordance with the appropriate professional standards, as determined by the county auditor, if the special district satisfies the requirements of subparagraphs (A) and (B) of paragraph (1).

(d) (1) A special district may, by annual unanimous request of the governing board of the special district and with annual unanimous approval of the board of supervisors, replace the annual audit required by this section with an annual financial compilation of the special district to be performed by the county auditor in accordance with professional standards, if all of the following conditions are met:

(A) All of the special district's revenues and expenditures are transacted through the county's financial system.

(B) The special district's annual revenues do not exceed one hundred fifty thousand dollars (\$150,000).

(C) The special district shall pay for any costs incurred by the county auditor in performing a financial compilation. Those costs shall be a charge against any unencumbered funds of the district available for that purpose.

(2) A special district shall not replace an annual audit required by this section with an annual financial compilation of the special district pursuant to paragraph (1) for more than five consecutive years, after which a special district shall comply with subdivision (a).

(e) Notwithstanding this section, a special district shall be exempt from the requirement of an annual audit if the financial statements are audited by the Controller to satisfy federal audit requirements.

(f) Upon receipt of the financial review, agreed-upon procedures engagement, or financial compilation, the county auditor shall have the right to appoint, pursuant to subdivision (a), a certified public accountant or a public accountant to conduct an audit of the special district, with proper notice to the governing board of the special district and board of supervisors.

(g) This section shall remain in effect only until January 1, 2027, and as of that date is repealed.

(Amended by Stats. 2016, Ch. 164, Sec. 1. Effective January 1, 2017. Repealed as of January 1, 2027, by its own provisions. See later operative version added by Sec. 2 of Stats. 2016, Ch. 164.)