

NEVADA COUNTY FINANCIAL ACCOUNTING AND REPORTING

REASON FOR INVESTIGATION

Governmental Accounting Standards Board, Statement No. 34 (GASB 34) will become effective for Nevada County's fiscal year ending June 30, 2003. A severe financial impact on the county's credibility affecting its credit rating, investment options, and seeking of grant money is possible should GASB 34 not be implemented on time. To report using the GASB 34 format, all financial records for the fiscal year starting July 1, 2002, must be maintained with that format. GASB 34 represents a major revision that will require extensive reconstruction of financial reporting, in both form and substance. The Nevada County Civil Grand Jury, concerned with the progress of this very important financial reporting conversion, initiated an investigation to ascertain if the county is on track to meet the effective date of these new requirements.

PROCEDURE FOLLOWED

1. In August 2001, the Grand Jury attended the county's Audit Review Committee's interview with the outside auditors in pre-audit discussions for the fiscal year 2001 annual report. The Grand Jury was present at the post-audit interview in January 2002.
2. The outside auditors' accounting and audit work papers for the fiscal years 2000 and 2001 were reviewed. Information from outside publications, internal correspondence, and other documents relating to GASB 34 were also examined.
3. The Grand Jury interviewed the Auditor/Controller, Treasurer/Tax Collector, Director of Information Services, and the Assistant Auditor/Controller.

FINDINGS

1. All Nevada County governmental entities must implement GASB 34, together with modifiers GASB 37 and 38, beginning with the fiscal year starting July 1, 2002.
2. One year of financial reporting is required before the effective date of June 30, 2003.
3. The new GASB 34 reporting requirements will provide detailed tracking of county assets and expenditures reflecting the net cost of government services.
4. The comprehensive change from the existing format will require a significant reallocation of work force resources.

5. The Nevada County Management Report for the year ending June 30, 2001, prepared by the outside auditors states that:

"Inadequate planning on the part of the County could result in work scheduling problems, increased accounting costs and or qualified opinion on audited financial statements."

"We recommend that the County create a Project Task Force to begin the process of planning for implementation of GASB 34."
6. In response to finding number 5, the Auditor/Controller's office provided the following statement:

"Our GASB 34 task force was formed in June 2000. Meetings have been sporadic, but productive. We have been working with the County Administrator's office, Department of Transportation and Sanitation and others. Unfortunately, during the last six months little has been done to move forward with this massive accounting change. This was due to staff changes and an inadequate staffing level in our office to take on this complex standard. We recently received approval for temporary help to assist with the additional workload requirements. We expect to be back on schedule with the implementation plan shortly."
7. The office of Auditor/Controller has approval to hire one temporary employee to assist in the implementation of GASB 34. By county regulation, a temporary employee may not work more than 1000 hours per fiscal year.
8. Nevada County's present financial operating system is approximately 15 years old. This system is obsolete with no expansion capabilities that would support the new requirements of GASB 34.
9. The county's lack of a financial operating system, capable of supporting the new accounting standards, will require approximately 50 per cent of the data entry be done manually.
10. In November 2000, the Board of Supervisors (BOS) accepted the county's Enterprise Information Technology Strategic Plan 2001 (EITSP2001). This plan outlines the direction and focus of information technology for Nevada County over the next five years.
11. A financial accounting system for Nevada County is the number one priority of EITSP2001.
12. Five hundred thousand dollars has been budgeted toward the purchase of a new financial operating system for the county. The county will continue to budget annually to meet the goals of EITSP2001.
13. The Internal Services Committee, representing various departments in Nevada County, is in the process of evaluating vendor proposals for the new operating system.

CONCLUSIONS

1. Nevada County government has been slow in addressing the acquisition of a new accounting/reporting system to support the requirements of GASB 34.
2. Not meeting the GASB 34 implementation date may cause the county to receive a qualified opinion by the outside auditors for the fiscal year ending June 30, 2003. A qualified opinion would create a lack of confidence in the credibility and integrity of the county's accounting and financial reporting. This would have far-reaching financial implications for the county.
3. When the project is complete, the new operating system will generate detailed tracking of county's assets and expenditures. Such reporting will allow the county better management of their operating costs.

RECOMMENDATIONS

1. Before the end of this fiscal year, the Board of Supervisors should authorize the issuance of a purchase order to acquire the operating system needed to support the new accounting and reporting requirements as defined by GASB 34.
2. Adequate personnel should be made available to assure that the county meets the GASB 34 implementation deadline.
3. The county should develop a sufficient work force to assist with the conversion of financial records to the new operating system.
4. The county should provide an appropriate training program for personnel whose responsibilities will change due to the implementation of the new operating system.

REQUIRED RESPONSES

Board of Supervisors due by September 10, 2002

Auditor/Controller due by August 12, 2002

County Executive Officer due by August 12, 2002

Department Head IS due by August 12, 2002

**NEVADA COUNTY BOARD OF SUPERVISORS RESPONSES TO
2001-2002 CIVIL GRAND JURY INTERIM REPORT NO. 14
DATED JUNE 18, 2002
RE: NEVADA COUNTY UTILITY FRANCHISES**

Responses to findings and recommendations are based on either personal knowledge, examination of official county records, review of the responses by the County Executive Officer, the Auditor-Controller, and County Counsel, or testimony from the board chairman and county staff members.

I. GRAND JURY INVESTIGATION:

Nevada County Utility Franchises.

A. RESPONSE TO FINDINGS & RECOMMENDATIONS:

Findings:

1. **On September 11, 2001, the BOS responded to the Grand Jury on these two recommendations by stating that the CEO, the A-C, and the County Counsel are to work together to review and update the County Code. This analysis was to have been completed by January 31, 2002. Implementation was anticipated by June 30, 2002.**

Generally agree. See actual Board response dated September 11, 2001 to Recommendation No. 1 of 2000-2001 Interim Report No. 14. (see below).

**BOS RESPONSE TO RECOMMENDATION NO. 1
GRAND JURY 2000-2001 INTERIM REPORT NO. 14**

- “1. Review and update the County Code (Nevada County General Code Chapter II: Franchises) to:
 - Include all utility franchises operating within the County of Nevada
 - Establish a definitive method for calculating each franchise fee
 - Establish procedure to ensure that the county is receiving all agreed-to fees from franchises operating within the county. These procedures should include audits and/or other reviews of each franchise.

The Recommendation has not been acted upon and requires further analysis to be completed by January 31, 2002. Implementation is anticipated by June 30, 2002.

The Board recognizes and acknowledges the need to update all County Codes and regulations on an ongoing basis, including without limitation, General Code sections relating to all franchise operations. Such provisions and revisions, and agreements pursuant thereto, should include definitive methods for calculating franchise fees and verifying that County is receiving the full payment to which it is entitled.

Further analysis is necessary by staff to determine the nature and extent of any necessary revisions and amendments to Chapter II of the county General Code in this regard. The directors of the concerned departments, together with the County Administrator and County Counsel, with assistance from the Auditor-Controller, by this response are directed to review the provisions of General Code Chapter II: Franchise applicable to franchises overseen by their department and present recommendations back to the Board regarding additions or revisions necessary to update local regulation of utility franchises within the County, paying special attention to the Grand Jury recommendations. To the extent existing regulations and/or contracts do not establish a definitive method for calculating and charging an authorized fee and procedures to ensure that the County is receiving full payment of such fees, further provisions shall be recommended including provision for audits and/or other inspection, review and examination of the books and records of each franchise.”

2. The respective audits and/or reviews were to be implemented by June 30, 2002.

Generally agree, with a clarification. The Board response to Recommendation No. 2 in the 2000-2001 Grand Jury Report concerning performance of their required audits and/or reviews at the earliest opportunity was that:

- The County Administrator, with assistance from the Auditor-Controller, was directed to complete an audit of existing cable TV franchises by June 30, 2002, either by the Auditor-Controller or by a retained CPA.
- The County Administrator was to review other county utility franchise agreements and Code requirements and Code requirements and determine if and to what extent an audit or examination of franchise books was justified, completing any required financial reviews or audits by June 30, 2002.
- To the extent Code updates were adopted addressing other franchise audit requirements, those audits and/or reviews would be accomplished as required by Code following the update.

This response assumed that the further analysis necessary to determine the nature and extent of any revisions or amendments would be done in a timely fashion and the requisite amendments done before June 30, 2002, to allow the new procedures to be implemented by June 30, 2002. It is, however, possible that when the analysis is completed, it will determine that no additional revisions are necessary so that no additional audits and/or reviews would be needed.

The response to last year's Grand Jury recommendation actually only committed to doing only one audit by June 30, 2002, for sure – that of existing cable TV franchises as required by the

General Code. As to others, the response made a commitment to determine if and to what extent an audit or examination of books was justified or should be required completing them by June 30, 2002 if required. However, at a minimum, some kind of review and analysis was contemplated upon which that determination would have been based.

- 3. The BOS issued Minute Orders No. 01-70, 01-71, 01-72, and 01-73 to follow up on their directives (see Addendum A).**

Agree.

- 4. Despite the request by the BOS that the review of the County Code be completed by January 31, 2002, neither the review nor the possible update has yet been started. No plausible explanations were given to the Grand Jury for the delay.**

Agree.

The CEO's office failed to start review of the County Code and the possible update within the timeframe given in the Board response due to other higher priority items and lack of available staff and resources to accomplish all that needed to be done. Exacerbating the problem was loss of the County's Chief Fiscal Officer from the CEO's office in early 2002, necessitating diversion of a good portion of staff otherwise available to completion of the budget process.

- 5. The Audit/Control Department recently was allocated approximately \$25,000 to contract for a specialized audit of the two cable industry franchise companies, which service Nevada County residents.**

Agree

- 6. The audit contract is still being negotiated. This will not allow sufficient time to meet the June 30, 2002 deadline.**

Agree that when the Grand Jury Report was published, the contract was still being negotiated.

The Auditor-Controller's office received \$20,000 in funding on March 26, 2002 to perform two franchise audits, of AT&T Broadband and USA Media.

Our Purchasing Agent approved two contracts on June 21, 2002 with the Buske Group to perform the audits. The audits are presently scheduled to be completed by September 30, 2002.

Recommendations:

1. The County Executive Officer should spearhead updating the existing County Code.

The recommendation has not yet been implemented but a plan and schedule to update the Code will be developed by the CEO and presented to the Board by January 14, 2003.

The Board previously directed this recommendation be implemented in response to the Grand Jury recommendation in the 2000-2001 Grand Jury Interim Report Number 14, dated September 14, 2001. It has not yet been accomplished. Previous direction to the County Executive Officer (CEO) to update the Code will be reaffirmed.

The CEO was previously directed in September 2001, by the Board response to the 2000-2001 Grand Jury recommendation in Interim Report Number 14, to determine, in cooperation with concerned departments and County Counsel, the nature and extent of any necessary revisions and amendments to Chapter II of the County Code regarding franchises. Following this review, recommendations were to be made to the Board regarding additions or revisions necessary to update the Code. (See Board response to Recommendation Number 1 of 2000-2001, Interim Grand Jury Report Number 14, dated September 11, 2001).

The CEO, by this response is again directed to accomplish this update in cooperation with the directors of the concerned departments and the Auditor Controller. County Counsel is also directed to assist with research and responses to legal issues as they may arise and with final drafting of ordinance amendments that may be deemed necessary by the Board.

The CEO is also directed to report back to the Board by January 14, 2003 with a plan and schedule for accomplishing the review and update of the Code.

2. Once the County Code is updated, the Auditor-Controller should conduct regular audits of all county franchise fees.

The recommendation will not be implemented as stated.

Due to limitations of time, personnel, and resources, the County can not presently commit to regular audits of all county franchises. There needs to be an administrative balancing of the costs of regular audits of all county franchise fees against the potential benefits and a consideration of whether some alternative other than regular formal audits of all county franchise fees would be more cost effective.

As resources permit after the County Code is updated, the Board will consider accomplishing regular audits of all county franchises upon recommendation of the CEO and the Auditor Controller. The CEO by this response, is directed, in coordination with the Auditor Controller, to evaluate the Grand Jury response and make a recommendation to the Board as to the

implementation of a regular franchise fee audit program and/or other alternatives to regular formal audits.

3. **The Auditor-Controller should have an employee in his department to audit and verify the accuracy of these franchise fees.**

The recommendation requires further analysis to be completed by February 28, 2003.

The CEO in cooperation with the Human Resources Department and the Auditor Controller is directed by this response to determine and report back to the Board by February 28, 2003, if there is a need for additional staffing in the Auditor Controller's office to audit and verify the accuracy of franchise fees. If additional staffing is seen to be needed, the staffing increase will be considered as part of the FY 2003-2004 budget process.

4. **A realistic deadline should be established to get the analysis completed and the audits performed to ensure the county collects franchise fees correctly and in accordance with existing agreements.**

The recommendation has not yet been fully implemented, but will be as stated in the Board response to Recommendation Number 1.

The CEO has been directed to develop, in cooperation with concerned departments and the Auditor-Controller, a work plan and schedule for accomplishing a review and update of the County Code regarding franchises and report back to the Board by January 14, 2003.

The franchise fee audits are presently scheduled to be completed on September 30, 2002 (See response to Finding Number 5).



**COUNTY OF NEVADA
COUNTY EXECUTIVE OFFICE**

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RECEIVED

JUL 11 2002

NEVADA COUNTY
BOARD OF SUPERVISORS

July 5, 2002

The Honorable Ersel Edwards
Presiding Judge
Nevada County Superior Court
201 Church Street
Nevada City, CA 95959

Honorable Judge Edwards:

Subject: County Executive Officer Response to the 2001-2002 Nevada County Civil Grand Jury Interim Report No. 14 dated June 18, 2002 regarding Nevada County Utility Franchises

Attached is the Nevada County Executive Officer's response to the Nevada County Grand Jury report regarding Nevada County Utility Franchises. I believe my response to be accurate and appropriately detailed to address the issues raised by the Grand Jury.

Ted A. Gaebler
County Executive Officer

NEVADA COUNTY UTILITY FRANCHISES
Grand Jury Report
County Executive Officer Response

FINDINGS

1. On September 11, 2001, the BOS responded to the Grand Jury on these two recommendations by stating that the CEO, the AC, and the County Counsel are to work together to review and update the County Code. This analysis was to have been completed by January 31, 2002. Implementation was anticipated by June 30, 2002.

Response: Agree

The Board of Supervisors set an aggressive timetable for this important matter.

2. The respective audits and/or reviews were to be implemented by June 30, 2002.

Response: Agree

See comment above.

3. The BOS issued Minute Orders No. 01-70, 01-71, 01-72, and 01-73 to follow up on their directives (see Addendum A).

Response: Agree

4. Despite the request by the BOS that the review of the County Code be completed by January 31, 2002, neither the review nor the possible update has yet been started. No plausible explanations were given to the Grand Jury for the delay.

Response: Partially disagree

There are explanations. They have yet to be communicated. Other Board priorities had the staff focused elsewhere. For example, refinancing of Certificates of Participation for both facilities and the solid waste system thereby saving millions of dollars. Our Chief Fiscal Officer left in early 2002 and the CEO's office had to focus on backfilling this position to complete the budget process. A new Chief Fiscal Officer was hired June 29, 2002. One of the tasks for the new Chief Fiscal Officer will be this review.

5. The Audit/Control Department recently was allocated approximately \$25,000 to contract for a specialized audit of the two cable industry franchise companies, which service Nevada County residents.

Response: Agree

It should be noted that it is necessary to not only conduct an audit of the cable system, but a consultant be hired to renegotiate the franchises in the near future.

6. The audit contract is still being negotiated. This will not allow sufficient time to meet the June 30, 2002, deadline.

Response: Agree

RECOMMENDATIONS

1. The County Executive Officer should spearhead updating the existing County Code.

Response: The recommendation has not yet been implemented.

2. Once the County Code is updated, the Auditor-Controller should conduct regular audits of all county franchise fees.

Response: The recommendation has not yet been implemented, but is well on its way to improvements. The Auditor's office has been provided some additional resources for these purposes.

3. The Auditor-Controller should have an employee in his department to audit and verify the accuracy of these franchise fees.

Response: The recommendation has not yet been implemented.

4. A realistic deadline should be established to get the analysis completed and the audits performed to ensure the county collects franchise fees correctly and in accordance with existing agreements.

Response: The recommendation has not yet been implemented.

COUNTY OF NEVADA

BRUCE A. BIELEFELT

**Auditor-Controller
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September 3, 2002

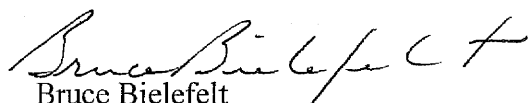
The Honorable Ersel Edwards
Presiding Judge
Nevada County Superior Court
201 Church Street
Nevada City, CA 95959

Revised response

Honorable Judge Edwards:

Subject: Auditor-Controller Response to the 2001-2002 Nevada County Civil
Grand Jury Interim Report No.14 dated June 18, 2002 regarding Nevada
County Utility Franchises

Attached is the Nevada County Auditor-Controller's revised response to the 2001-2002 Nevada County Civil Grand Jury report regarding Nevada County Utility Franchises. My earlier response did not follow established protocol. I believe my response to be accurate and appropriately detailed to address the issues raised by the Grand Jury.


Bruce Bielefelt
Nevada County Auditor-Controller

CC: BOS
CEO

NEVADA COUNTY UTILITY FRANCHISES
GRAND JURY REPORT
AUDITOR-CONTROLLER RESPONSE

FINDINGS

1. On September 11, 2001 the BOS responded to the Grand Jury on these two recommendations by stating that the CEO, the AC, and the County Counsel are to work together to review and update the County Code. This analysis was to have been completed by January 31, 2002. Implementation was anticipated by June 30, 2002.

Response: Agree

The Board of Supervisors set an aggressive timetable for this important matter.

2. The respective audits and/or reviews were to be implemented by June 30, 2002.

Response: Agree

See comment above

3. The BOS issued Minute Orders No. 01-70, 01-71, 01-72, and 01-73 to follow up on their directives (see Addendum A).

Response: Agree

4. Despite the request by the BOS that the review of the County Code be completed by January 31, 2002, neither the review nor the possible update has yet been started. No plausible explanations were given to the Grand Jury for the delay.

Response: Agree

5. The Audit/Control Department recently was allocated approximately \$25,000 to contract for a specialized audit of the two cable industry franchise companies, which service Nevada County residents.

Response: Agree

A contract was executed on 6/21/02 with a completion date of 9/30/02 with The Buske Group.

RECOMMENDATIONS

1. The County Executive Officer should spearhead updating the existing County Code.

Response: This requires a CEO response.

2. Once the County Code is updated, the Auditor-Controller should conduct regular audits of all county franchise fees.

Response: The recommendation has not yet been implemented, but is well on its way. The Auditor's office has been provided some additional resources for these purposes.

3. The Auditor-Controller should have an employee in his department to audit and verify the accuracy of these franchise fees.

Response: The recommendation has not yet been implemented. When the audits are completed by The Buske Group we will have a better idea of the time and expertise needed to implement this recommendation. If additional resources are needed, we will include a request in our fiscal year '03-'04 budget.

4. A realistic deadline should be established to get the analysis completed and the audits performed to ensure the county collects franchise fees correctly and in accordance with existing agreements.

Response: The recommendation has not yet been fully implemented. Audits to be completed by The Buske Group 9-30-02.

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MICHAEL D. CASTELLI, SPECIAL COUNSEL

June 26, 2002

The Honorable M. Kathleen Butz
Presiding Judge of the Nevada County Courts
Nevada County Court House
Nevada City, Ca 95959

Re: Requested Response of County Counsel to the 2001-2002 Nevada County Civil Grand Jury Interim Report No. 11, dated June 18, 2002 regarding Nevada County Airport and Interim Report No. 14, dated June 18, 2002 regarding Nevada County Utility Franchises

Dear Judge Butz:

Interim Report Nos. 11 and 14 of the 2001-2002 Nevada County Civil Grand Jury purport to require responses from County Counsel as well as from the Board of Supervisors. However, in our opinion we believe that Grand Jury responses regarding the Nevada County Airport and Utility Franchises should properly be requested and come from the Board of Supervisors, not from our office. A copy of an opinion dated June 21, 2002 from myself to Ted Gaebler, CEO, explaining this determination is attached hereto. In view of this determination and the unique relationship of our office in providing legal services to both the Grand Jury and the Board of Supervisors, we will be submitting input on Interim Report Nos. 11 and 14 to the CEO and to the Board for the Board response, but will not be preparing or submitting a separate response solely from our office.

Sincerely,


HAROLD E. DeGRAW
Assistant County Counsel

Attachment

Gjno11.doc

cc: Foreman, Grand Jury
Ted Gaebler, CEO
Charles J. McKee, County Counsel
Gary Jacobsen, Airport Manager
Bruce Bielefeldt, Auditor-Controller