

**COUNTY OF MERCED**

Single Audit Reports  
(OMB Circular A-133)

For the Fiscal Year Ended June 30, 2006

**COUNTY OF MERCED  
SINGLE AUDIT REPORTS  
(OMB CIRCULAR A-133)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**COUNTY OF MERCED**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR Passthrough Grantor Program Title	Federal C.F.D.A. Number	Contract Or Program Number	Total Federal Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Passed Through California Department of Food and Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	05-0251	\$ 24,990
Plant and Animal Disease, Pest Control, and Animal Care	10.025	05-0152	22,362
Plant and Animal Disease, Pest Control, and Animal Care	10.025	05-0435	1,908
Plant and Animal Disease, Pest Control, and Animal Care	10.025	05-0410	71,449
			<u>120,709</u>
Passed Through California Department of Food and Agriculture			
Inspection Grading and Standardization	10.162	05-0327	2,781
Passed Through California Department of Education			
School Breakfast Program	10.553	6315	118,427
Passed Through California Department of Social Services			
State Administrative Matching Grants for Food Stamp Program	10.561		2,912,237
State Administrative Matching Grants for Food Stamp Program	10.561		507,325
			<u>3,419,562</u>
Food Stamps	10.551		32,871,572
Total Food Stamp Cluster			<u>36,291,134</u>
Passed Through California Department of Forestry and Fire Protection			
Cooperative Forestry Assistance	10.664	7CA44427	11,650
<i>Total U.S. Department of Agriculture</i>			<u><u>36,544,701</u></u>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
Passed Through City of Atwater			
Community Development Block Grants/State's Program	14.228	03-EDBG-919	26,390
Passed Through City of Dos Palos			
Community Development Block Grants/State's Program	14.228	03-EDBG-922	61,780
Passed Through City of Los Banos			
Community Development Block Grants/State's Program	14.228	03-EDBG-921	30,292
Passed Through City of Livingston			
Community Development Block Grants/State's Program	14.228	03-EDBG-920	13,723
Passed Through California Department of Housing and Community Development			
Community Development Block Grants/State's Program	14.228	03-EDBG-918	225,944
Community Development Block Grants/State's Program	14.228	02-EDBG-884	5,497
Community Development Block Grants/State's Program	14.228	04-STBG-1913	152,342
Community Development Block Grants/State's Program	14.228	03-PTAA-0012	7,959
Community Development Block Grants/State's Program	14.228	Program Income	34,075
Community Development Block Grants/State's Program	14.228	03-STBG-1840	69,917
			<u>627,919</u>
HOME Investment Partnerships Program	14.239	03-HOME-0658	462,613
HOME Investment Partnerships Program	14.239	04-HOME-0742	88,695
HOME Investment Partnerships Program	14.239	02-HOME-0619	252,497
HOME Investment Partnerships Program	14.239	Program Income Loans	178,738
			<u>982,543</u>

(Continued)

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

**COUNTY OF MERCED**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR Passthrough Grantor Program Title	Federal C.F.D.A. Number	Contract Or Program Number	Total Federal Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)</u>			
Passed Through California Department of Health Services Housing Opportunities for Persons with AIDS	14.241	04-35615	30,695
<i>Total U.S. Department of Housing and Urban Development</i>			<u>1,641,157</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Programs			
National Drug Control Policy	16.xxx	CPOT	35,983
DEA Cannabis Eradication	16.xxx	2005-24	25,000
Southwest Border Prosecution Initiative	16.xxx		33,702
Drug Court Discretionary Grant Program	16.585	2001-DC-BX-0048	25,430
Local Law Enforcement Block Grants Program	16.592	2004 LBBX 0337	36,315
State Criminal Alien Assistance Program	16.606	2006-AP-BX-0136	124,493
Public Safety Partnership and Community Policing Grants	16.710	2005-CKWX-0398	46,679
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-1121	40,909
Passed Through Governor's Office of Emergency Services Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC05160240	268,344
			<u>309,253</u>
Crime Victim Assistance	16.575	AT05020240	86,572
Crime Victim Assistance	16.575	VW05230240	91,812
			<u>178,384</u>
Violence Against Women Formula Grants	16.588	PU05040240	46,767
Violence Against Women Formula Grants	16.588	PU04030240	18,499
			<u>65,266</u>
Pass Through State Board of Corrections Part E_State Challenge Activities	16.549	BDC 217-4	8,706
Passed Through Merced County Superior Court Grants To Encourage Arrest Policies and Enforcement of Protection Orders	16.590	2004-381	16,897
<i>Total U.S. Department of Justice</i>			<u>906,108</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed Through California Employment Development Department			
Employment Service	17.207	L277591	7,094
Employment Service	17.207	L6959852	8,710
			<u>15,804</u>
WIA Adult Program	17.258	R588733	817,262
WIA Adult Program	17.258	R692484	1,415,270
			<u>2,232,532</u>
WIA Youth Activities	17.259	R588733	461,219
WIA Youth Activities	17.259	R692484	1,176,558
			<u>1,637,777</u>

(Continued)

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

**COUNTY OF MERCED**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR Passthrough Grantor Program Title	Federal C.F.D.A. Number	Contract Or Program Number	Total Federal Expenditures
<b>U.S. DEPARTMENT OF LABOR (Continued)</b>			
Passed Through California Employment Development Department (Continued)			
WIA - Dislocated Worker	17.260	R485287	7,595
WIA - Dislocated Worker	17.260	R588733	460,882
WIA - Dislocated Worker	17.260	R692484	1,550,548
Passed Through City of San Jose			
WIA - Dislocated Worker	17.260	2004293	7,144
			<u>2,026,169</u>
Total WIA Cluster			5,896,478
Passed Through California Department of Aging			
Senior Community Service Employment Program	17.235	TV-0506-31	94,233
<i>Total U.S. Department of Labor</i>			<u>6,006,515</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Direct Programs			
Airport Improvement Program	20.106	DTFA08-03-C-31361	1,081,418
Airport Improvement Program	20.106	DTFA08-04-C-31502	804,497
			<u>1,885,915</u>
Federal Transit Formula Grants	20.507	CA-90-Y275-00	3,345,756
Federal Transit Formula Grants	20.507	CA-90-Y384-00	1,198,014
Federal Transit Formula Grants	20.507	CA-90-Y422-00	1,344,296
Federal Transit Formula Grants	20.507	CA-90-Y425	933,401
			<u>6,821,467</u>
Federal Transit Capital Investment Grants	20.500	CA-03-0671-00	289,144
Total Federal Transit Cluster			<u>7,110,611</u>
Passed Through California Department of Transportation			
Highway Planning and Construction	20.205	10-955734L	55
Highway Planning and Construction	20.205	10-956001L	353
Highway Planning and Construction	20.205	10-107374	482,231
Highway Planning and Construction	20.205	10-4A0701	140,032
Highway Planning and Construction	20.205	10-956184	55
Highway Planning and Construction	20.205	10-956279L	22,165
Highway Planning and Construction	20.205	10-4A0674	267,713
Highway Planning and Construction	20.205	10-956491	18,621
			<u>931,225</u>
Passed Through California Office of Traffic Safety			
State and Community Highway Safety	20.600	CB0203	64,556
<i>Total U.S. Department of Transportation</i>			<u>9,992,307</u>
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>			
Passed Through California Water Resources Control Board			
Leaking Underground Storage Tank Trust Fund	66.805	05-007-250-0	32,565
<i>Total U.S. Environmental Protection Agency</i>			<u>32,565</u>

(Continued)

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

**COUNTY OF MERCED**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR Passthrough Grantor Program Title	Federal C.F.D.A. Number	Contract Or Program Number	Total Federal Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through California Department of Education			
Safe and Drug-Free Schools and Communities	84.186	2004-265	33,417
<i>Total U.S. Department of Education</i>			<u>33,417</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through California Department of Aging			
Special Programs for the Aging - Title VII, Chapter 3 - Programs For Prevention of Elder Abuse, Neglect, and Exploitation	93.041	AP-0506-31	3,230
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	AP-0506-31	7,364
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	AP-0506-31	17,005
Special Programs for the Aging - Title III, Part B - Grants and Supportive Services and Senior Centers	93.044	AP-0506-31	189,100
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	AP-0506-31	320,514
Total Aging Cluster			<u>509,614</u>
National Family Caregiver Support	93.052	AP-0506-31	118,142
Centers For Medicare and Medicaid Services	93.779	HI-0506-31	56,141
Passed Through California Department of Health Services			
Public Health and Social Services Emergency Fund	93.003	2002114	57,089
Public Health and Social Services Emergency Fund	93.003		52,563
Public Health and Social Services Emergency Fund	93.003		107,733
			<u>217,385</u>
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		30,029
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		32,140
			<u>62,169</u>
Immunization Grants	93.268	05-45414	87,126
Center For Disease Control and Prevention	93.283	2002114	47,032
Refugee and Entrant Assistance - State Administered Programs	93.566	05-24-9460-01	141,300
Passed Through California Department of Social Services			
Refugee and Entrant Assistance - State Administered Programs	93.566	Cash	13,963
Refugee and Entrant Assistance - State Administered Programs	93.566	Cash	64,943
Refugee and Entrant Assistance - State Administered Programs	93.566		106,405
			<u>326,611</u>
Passed Through California Department of Mental Health			
Projects for Assistance in Transition from Homelessness (PATH)	93.150		63,410
Passed Through California Department of Social Services			
Promoting Safe and Stable Families (05/06)	93.556		538,577

(Continued)

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

**COUNTY OF MERCED**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR Passthrough Grantor Program Title	Federal C.F.D.A. Number	Contract Or Program Number	Total Federal Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)</b>			
Passed Through California Department of Social Services (Continued)			
Temporary Assistance for Needy Families	93.558		6,911
Temporary Assistance for Needy Families	93.558		278,100
Temporary Assistance for Needy Families	93.558		407,890
Temporary Assistance for Needy Families	93.558		2,589,526
Temporary Assistance for Needy Families	93.558		5,708
Temporary Assistance for Needy Families	93.558		36,612
Temporary Assistance for Needy Families	93.558		2,633,624
Temporary Assistance for Needy Families	93.558		8,106,913
Temporary Assistance for Needy Families	93.558		2,545
Temporary Assistance for Needy Families	93.558		85,309
Temporary Assistance for Needy Families	93.558		201,538
Temporary Assistance for Needy Families	93.558		563,898
Temporary Assistance for Needy Families	93.558		45,021,365
Temporary Assistance for Needy Families	93.558		670,044
Electronic Benefit Transfer Project	93.558		6,389
			<u>60,616,372</u>
Child Support Enforcement	93.563	Claim	5,973,374
Child Welfare Services - State Grants	93.645	Cash	202,708
Foster Care - Title IV-E	93.658	Claim	1,513,265
Foster Care - Title IV-E	93.658	Advance/Cash	4,265,701
Foster Care - Title IV-E	93.658	Cash	5,040
Foster Care - Title IV-E	93.658	Cash	49,595
Foster Care - Title IV-E	93.658	Cash	52,432
Foster Care - Title IV-E	93.658		9,502
Foster Care - Title IV-E	93.658	Cash	164,653
Foster Care - Title IV-E	93.658		3,425,413
			<u>9,485,601</u>
Adoption Assistance	93.659	Claim	244,048
Adoption Assistance	93.659		29,201
Adoption Assistance	93.659		1,212,115
			<u>1,485,364</u>
Chafee Foster Care Independent Living	93.674		178,613
Passed Through California Department of Health Services			
State Children's Insurance Program	93.767		70,767
National Bioterrorism Hospital Preparedness Program	93.889	2002114	256,105
National Bioterrorism Hospital Preparedness Program	93.889		36,751
			<u>292,856</u>
HIV Care Formula Grants	93.917	03-75914	53,806
Preventive Health and Health Services Block Grant	93.991	314D	1,434

The notes to the schedule of expenditures of federal awards are an integral part of this schedule. (Continued)

**COUNTY OF MERCED**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR Passthrough Grantor Program Title	Federal C.F.D.A. Number	Contract Or Program Number	Total Federal Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)</b>			
Passed Through California Department of Health Services (Continued)			
Maternal and Child Health Services Block Grant	93.994		65,155
Maternal and Child Health Services Block Grant	93.994		112,788
			<u>177,943</u>
Passed Through California Department of Mental Health			
Block Grants For Community Mental Health Services	93.958		872,424
Passed Through California Department of Alcohol and Drug Programs			
Block Grants for Prevention and Treatment of Substance Abuse	93.959		425,784
Block Grants for Prevention and Treatment of Substance Abuse	93.959		809,697
			<u>1,235,481</u>
Passed Through California Department of Social Services			
Medical Assistance Program	93.778		26,163
Medical Assistance Program	93.778		563,652
Medical Assistance Program	93.778	Claim	346,997
Medical Assistance Program	93.778		8,440,233
Medical Assistance Program	93.778	Cash	155,376
Medical Assistance Program	93.778	Cash	1,810,326
Medical Assistance Program	93.778	Cash	468
Medical Assistance Program	93.778	Advance/Cash	1,016,753
Passed Through California Department of Alcohol and Drug Programs			
Medical Assistance Program	93.778		104,235
Passed Through California Department of Health Services			
Medical Assistance Program	93.778	Allocation	915,881
Medical Assistance Program	93.778	05-45149	28,050
Medical Assistance Program	93.778	Letter	71,797
Medical Assistance Program	93.778	Letter	348,997
Medical Assistance Program	93.778	05-45149	898
Medical Assistance Program	93.778	200524	16,094
Medical Assistance Program	93.778	200524	140,264
Medical Assistance Program	93.778	03-75077	35,354
Medical Assistance Program	93.778		130,390
Medical Assistance Program	93.778	240407	279,602
Medical Assistance Program	93.778	2004248	38,835
Medical Assistance Program	93.778		16
Passed Through California Department of Aging			
Medical Assistance Program	93.778	MS-0506-28	736,094
Passed Through California Department of Mental Health			
Medical Assistance Program	93.778	Claim	506,188
			<u>15,712,663</u>
<i>Total U.S. Department of Health and Human Services</i>			<u>98,413,212</u>

(Continued)

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.



**COUNTY OF MERCED**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR Passthrough Grantor Program Title	Federal C.F.D.A. Number	Contract Or Program Number	Total Federal Expenditures
<b>U. S. DEPARTMENT OF HOMELAND SECURITY</b>			
Passed Through Governor's Office of Homeland Security			
State Domestic Preparedness Equipment Support Program	97.004	2002-TE-CX-0133	73,916
Emergency Management Performance Grants	97.042	2005-15	16,238
Citizen Corps	97.053	2004-0045	79
State Homeland Security Program	97.073	2004-0045	590,438
State Homeland Security Program	97.073	2005-15	52,027
			<u>642,465</u>
Law Enforcement Terrorism Prevention Program	97.074	2004-0045	86,191
Law Enforcement Terrorism Prevention Program	97.074	2005-15	1,023
			<u>87,214</u>
Total Homeland Security Cluster			<u>819,912</u>
Total U.S. Department of Homeland Security			<u>819,912</u>
Total Expenditures of Federal Awards			<u><u>\$ 154,389,894</u></u>

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

**COUNTY OF MERCED**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 – GENERAL**

The accompanying schedule of expenditures of federal awards (SEFA) presents the activity of all federal financial assistance programs of the County of Merced, California (County). The County reporting entity is defined in Note 1 to the County's basic financial statements. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies, is included in the SEFA.

**NOTE 2 – BASIS OF ACCOUNTING**

The accompanying SEFA is presented using the cash basis of accounting, while the basic financial statements were presented using the accrual basis of accounting for the government-wide and proprietary fund statements and the modified accrual basis of accounting for the governmental fund statements.

**NOTE 3 – AMOUNT PROVIDED TO SUBRECIPIENTS**

The County has provided federal awards to various organizations. The amounts provided to subrecipients from each Federal program are summarized as follows:

<u>Federal Program</u>	<u>Federal CFDA Number</u>	<u>Subrecipient</u>	<u>Contract or Program Number</u>	<u>Amount Provided to Subrecipients</u>
WIA Youth Activities	17.259	MCOE	R588733 / R692484	\$ 800,994
WIA Youth Activities	17.259	MCOE	R588733 / R692484	624,014
WIA Youth Activities	17.259	MCOE	R692484	36,490
				<u>1,461,498</u>
State Homeland Security Program	97.004	City of Atwater	2002-TE-CX-0133	2,626
State Homeland Security Program	97.004	City of Livingston	2002-TE-CX-0133	1,080
State Homeland Security Program	97.004	City of Los Banos	2002-TE-CX-0133	2,802
State Homeland Security Program	97.004	City of Merced	2002-TE-CX-0133	2,405
				<u>8,913</u>
State Homeland Security Program	97.073	City of Atwater	2004-0045	30,998
State Homeland Security Program	97.073	City of Dos Palos	2004-0045	17,947
State Homeland Security Program	97.073	City of Livingston	2004-0045	41,269
State Homeland Security Program	97.073	City of Los Banos	2004-0045	65,841
State Homeland Security Program	97.073	City of Gustine	2004-0045	34,229
State Homeland Security Program	97.073	City of Merced	2004-0045	104,267
State Homeland Security Program	97.073	City of Los Banos	2005-15	2,301
State Homeland Security Program	97.073	City of Merced	2005-15	3,100
				<u>299,952</u>
Law Enforcement Terrorism Prevention Program	97.074	City of Dos Palos	2004-0045	7,247
Law Enforcement Terrorism Prevention Program	97.074	City of Los Banos	2004-0045	18,671
Law Enforcement Terrorism Prevention Program	97.074	City of Gustine	2004-0045	7,403
Law Enforcement Terrorism Prevention Program	97.074	City of Merced	2004-0045	5,000
				<u>38,321</u>
				<u>\$ 1,808,684</u>

**COUNTY OF MERCED**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 4 – CALIFORNIA DEPARTMENT OF AGING GRANT PROGRAMS**

The Schedule of Expenditures of Federal Awards (SEFA) is normally a presentation of Federal awards expended. However, the terms and conditions of agency contracts with California Department of Aging require agencies to display state-funded expenditures discretely along with the related federal expenditures in the SEFA. The following is a listing of the grant programs administered by California Department of Aging, which includes the pass through of federal awards of \$38,835 by the California Department of Health Services expended for the Targeted Case Management program:

<u>Local Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract or Program Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
HICAP State Contract (05/06)	93.779	HI-0506-31	\$ 56,141	\$ 164,725
Title V State Contract (05/06) Department of Workforce Investment	17.235	TV-0506-31	94,233	20,239
Title III/VII State Contract (05/06):				
Nutrition Services	93.045	AP-0506-31	320,514	55,372
Family Caregiver Support IIIIE	93.052	AP-0506-31	118,142	-
Elder Abuse Title VII	93.041	AP-0506-31	3,230	145
Ombudsman Title VII	93.042	AP-0506-31	7,364	1,056
Disease Prev. & Promo. Svcs Title IIID	93.043	AP-0506-31	17,005	584
Support Services & Senior Centers Title IIIB	93.044	AP-0506-31	189,100	35,813
Senior Farmers Market-Brown Bag			-	17,470
Senior Companion			-	21,617
Linkages			-	254,952
Targeted Case Management (05/06) Linkages	93.778		38,835	-
Alzheimer's Day Care			-	80,000
Targeted Case Management (04/05) Linkages	93.778		16	-
Multipurpose Senior Service Program	93.778	MS 0506-28	736,094	-
		Total	<u>\$ 1,580,674</u>	<u>\$ 651,973</u>

**NOTE 5 – 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. In accordance with Subpart B, Section 204 of the Office of Management and Budget Circular A-133, the County has reported the outstanding balance of loans from previous years that have continuing compliance requirements as of June 30, 2006 along with the value of total outstanding and new loans made during the current year.

**COUNTY OF MERCED**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 5 – LOANS OUTSTANDING (Continued)**

The following is a summary of the loan programs maintained by the County and their balances at June 30, 2006:

	<u>CFDA Number</u>	<u>Amount Outstanding</u>	<u>Prior Year Loans With Continuing Compliance Requirements</u>	<u>New Loans Issued During FYE 6/30/06</u>
Rural Business Enterprise Grants	10.769	\$ 28	\$ 28	\$ --
Economic Adjustment	11.307	542,499	142,282	--
Community Development Block Grants/State's Programs	14.228	1,542,606	1,380,836	161,770
HOME Investment Partnership Program	14.239	3,180,083	2,521,187	658,895
		<u>\$ 5,265,216</u>	<u>\$ 4,044,333</u>	<u>\$ 820,665</u>



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Honorable Board of Supervisors  
County of Merced, 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 remaining fund information of County of Merced (the County), California, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 22, 2007. 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's 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 management, Board of Supervisors, and 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 Grini & O'Connell LLP*

Certified Public Accountants

Sacramento, California

January 22, 2007



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Honorable Board of Supervisors  
County of Merced, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE,  
AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of County of Merced (the County), California, 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 year ended June 30, 2006. 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.

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 on 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, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 06-1.

### 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be a 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. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-1.

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 the reportable condition described above is not a material weakness.

### 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 remaining fund information of the County, as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated January 22, 2007. Our audit was performed 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 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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.



This report is intended solely for the information and use of the management, Board of Supervisors and 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 Gini & O'Connell LLP*

Certified Public Accountants

Sacramento, California

March 27, 2007, except for  
the schedule of expenditures of  
federal awards, as to which the  
date is January 22, 2007

**COUNTY OF MERCED  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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*Financial Statements*

Type of auditor’s report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	_____ yes	___✓___ no
• Reportable condition(s) identified that are not considered to be material weaknesses?	_____ yes	___✓___ none reported
Noncompliance material to financial statements noted?	_____ yes	___✓___ no

*Federal Awards*

Internal control over major programs:		
• Material weakness(es) identified?	_____ yes	___✓___ no
• Reportable condition(s) identified that are not considered to be material weaknesses?	___✓___ yes	_____ no
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	_____ no



**COUNTY OF MERCED  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Effect or Potential Effect:**

Noncompliance could result in loss of federal funding and/or sanctioning by the federal granting agency.

**Recommendation:**

We recommend that at the time of the award, the County should identify to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.

**Management Response:**

We will be sending a letter to Merced County Office of Education (the subrecipient for both Youth Programs) for purposes of clarifying the origin of the funds for those contracts, including CFDA title and number, award name and name of federal agency, along with applicable compliance requirements, including OMB Circulars, appropriate CFDA numbers, and WIA regulations.

In addition to the above, we are modifying our contract template so that in the future these areas will be detailed in all contracts with subrecipients.

**COUNTY OF MERCED**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR JUNE 30, 2006**

**ITEM:** 05-1  
**Federal Program:** Temporary Assistance for Needy Families (TANF)  
**CFDA #** 93.558  
**U.S. Department:** Health and Human Services

**Criteria:**

According to the Department of Health and Human Services federal requirements, (42 USC 608(a)(2) and 609(a)(8); 45 CFR sections 264.30 and 264.31), "...An individual that is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for TANF, the State TANF agency must: (1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance."

**Condition:**

During our compliance audit of federal awards expended for the Temporary Assistance for Needy Families (TANF) program, our audit revealed that 4 out of 40 sampled cases did not include the required Notice of Agreement for Child, Spousal and Medical Support, form CA2.1, for purposes of demonstrating compliance with the federal requirements, Special Tests and Provisions - Child Support Non-Cooperation compliance.

**Questioned Costs:**

In our sample testing of 40 items that amounted to \$13,712, we discovered known questioned costs of \$515, however, if we extrapolate the error rate over the complete population of aid payments of \$33,160,508, we project the likely questioned costs of approximately \$1,245,454.

**Effect:**

HHS may penalize a State for up to five percent of the SFAG for failure to substantially comply with this required State child support program (42 USC 608(a)(2) and 609(a)(8); 45 CFR sections 264.30 and 264.31).

**Cause:**

The CA2.1 form was not initiated by responsible County personnel in CIV system.

**Recommendation:**

We recommend that for children with absent parents, a CA2.1 should be included in the CIV system. If the County determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, then the County should sanction the case or deny benefits. Also, employees should be kept informed of eligibility requirements through training sessions or other means such as email and interoffice memos.

**COUNTY OF MERCED**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE FISCAL YEAR JUNE 30, 2006**

**Prior Year Management Response:**

The Merced County Human Services Agency (HSA) agrees with the finding in the respect that 4 of the 40 case files reviewed lacked signed documentation from the participant identifying child, spousal, or medical support, form CA2.1, in the imaged case file or in the automated welfare system and the applicable sanctions for non compliance taken.

The HSA has previously identified this area as an immediate concern during quality assurance (QA) reviews conducted monthly through out Fiscal Year 04/05, as shared with the Single Audit team. The automated welfare system (C-IV) will generate the CA2.1 and will document intended distribution to the TANF participant. The HSA has taken the following steps to remedy the issue:

Child Support staff has been stationed at the HSA Wardrobe location in the latter part of FY04/05 to help ensure signed documentation was delivered to the Merced County Department of Children Support. These workers will document in the C-IV system that the CA2.1 was received. Staff was given written and electronic procedural instruction on proper Child Support documentation. The HSA will continue training efforts on this topic.

The QA review will continue to target child support documentation. Although the audit finding has revealed noncompliance in two aid codes, the QA review targets all applicable aid codes requiring child, spousal, and medical support compliance. Any deviation from Federal, State, and County procedure is documented and corrected immediately. The benefit of these actions will not be realized until FY05/06 due to implementation of training and review. All cases identified in the Single Audit have been corrected.

**Current Year Status:**

The four CA2.1 forms in question were subsequently located (verified through auditor observation). Therefore, the known and likely questioned costs are being withdrawn from the report.

In addition, during the current year under audit, we tested 60 TANF cases processed for individual eligibility determinations without exception. Therefore, we consider this condition to be adequately addressed, and this recommendation implemented.

**ITEM: 05-2**  
**Federal Program: Head Start**  
**CFDA # 93.600**  
**U.S. Department: Health and Human Services**

**Criteria:**

For grantees other than Indian tribes/tribal organizations, at least 90 percent of the enrollees must come from families whose income is below the official Federal poverty guidelines or who are receiving public assistance (income-eligible). Up to 10 percent of the children who are enrolled may be from families that are not income-eligible (45 CFR section 1305.4).

**COUNTY OF MERCED**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE FISCAL YEAR JUNE 30, 2006**

**Condition:**

Although we were able to test enrollees on a sample basis, for which we determined that the income for 39 out of the 40 enrollees sampled was below the official Federal poverty guidelines; we were not able to obtain the client's monitoring documentation supporting that they met the 90 percent requirement overall.

**Questioned Costs:**

None noted

**Effect:**

When federal earmarking requirements prescribe the minimum number or percentage of specified types of participants that can be served, efforts should be made to ensure compliance otherwise the Community Action Agency could be subject to sanctioning or loss of federal funding.

**Cause:**

The client was unable to locate the requested supporting documentation, which had been placed in storage due to the program ending on June 30, 2005.

**Recommendation:**

When federal earmarking requirements prescribe the minimum number or percentage of specified types of participants that can be served, the appropriate reports and other records of participants that are counted toward meeting the minimum requirement should be maintained and readily available to demonstrate compliance with the program requirements until grant closeout or as specified by the federal granting agency.

**Prior Year Management Response:**

These reports have been available in the past. They were misfiled at the time of closure.

**Current Year Status:**

The Head Start program was administered by the Merced County Community Action Agency (MCCAA), a nonprofit corporation and, in previous years, a blended component unit of the County. However, as of July 1, 2005, MCCAA no longer was considered a component unit of the County, and as a result, the Head Start program is no longer included in the Merced County reporting entity. Therefore, we consider this condition to no longer be applicable to the County.

**COUNTY OF MERCED**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE FISCAL YEAR JUNE 30, 2006**

**ITEM:** 04-3  
**Federal Program:** Head Start  
**CFDA #** 93.600  
**U.S. Department:** Health and Human Services

**Criteria:**

Per Part 1305.7 of the enrollment and reenrollment requirements of the Head Start program, a Head Start grantee must maintain its funded enrollment level. When a program determines that a vacancy exists, no more than 30 calendar days may elapse before the vacancy is filled. A program may elect not to fill a vacancy when 60 calendar days or less remain in the program's enrollment year.

**Condition:**

Our audit revealed that the grantee did not maintain its federally funded enrollment levels in accordance with the levels specified in the financial assistance award. Based on interviews with the eligibility, recruitment, selection, enrollment and attendance (ERSEA) supervisors and the Head Start Director, in addition to our examination of the classroom rosters and the child plus attendance reports, we determined that the agency was under enrolled by approximately 55 children at the thirteen sites we sampled for program compliance, between the period August 2003 and March 2004.

**Effect:**

When the agency fails to adequately provide supervisory review of earmarking activities and maintain its required federally funded enrollment levels, the agency becomes out of compliance with federal program earmarking requirements and could be liable to sanctioning by the grantor agency.

**Cause:**

There is no responsible employee with a sufficient understanding of Part 1305.7 of the enrollment and reenrollment requirements for the Head Start program.

**Recommendation:**

We recommend the Head Start program management develop a sufficient understanding of the program requirements and designate accountability to a responsible individual who is knowledgeable of the requirements for determining earmarking compliance, in accordance with federal program agreements; provide ongoing training to staff, and maintain the required federally funded enrollment levels in accord with the federal assistance award, throughout the school year.

**Management Response:**

We have developed a new job description titled Attendance/Enrollment Specialist. This position will be filled if the agency is the successful grantee applicant. This position will provide ongoing training of staff concerning enrollment and reenrollment levels. Monitoring of enrollment issues from the management level will be improved through a plan that will take effect, if we are successful in maintaining operation of the Head Start program. We have developed five positions of Operations Specialist that will be responsible for monitoring quality and compliance with regulations. They will work with the center supervisors in maintaining their funded enrollment through ongoing recruitment efforts.



**COUNTY OF MERCED  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR JUNE 30, 2006**

**Prior Year Status:**

During the current year, our audit revealed that the grantee did not maintain its federally funded enrollment levels in accordance with the levels specified in the financial assistance award. Based on interviews with the eligibility, recruitment, selection, enrollment and attendance (ERSEA) supervisors and the Head Start Director, in addition to our examination of the classroom rosters and the child plus attendance reports, we determined that the agency was under enrolled by approximately 12 children at seven of the eleven sites we sampled from the total of 22 sites for program compliance, between the period August 2004 and May 2005. The following is the breakdown of the 12 children by the seven sites:

<u>Site</u>	<u>Minimum Req.</u>	<u>Under enrolled</u>
1	34	1
2	54	5
3	17	1
4	15	1
5	15	1
6	34	2
7	30	1

As a result of the current year findings, this finding continues to be a finding for the current year.

**Current Year Status:**

The Head Start program was administered by the MCCA, a nonprofit corporation and, in previous years, a blended component unit of the County. However, as of July 1, 2005, MCCA no longer was considered a component unit of the County, and as a result, the Head Start program is no longer included in the Merced County reporting entity. Therefore, we consider this condition to no longer be applicable to the County.