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August 4, 2010

Honorable Robin Appel  
Presiding Judge of the Superior Court  
County of San Joaquin  
222 E. Weber Avenue, Room 303  
Stockton, CA 95202

Dear Judge Appel:

### **Responses to 2009-10 Grand Jury Final Report**

Pursuant to Section 933.05 of the California Penal Code, attached please find the First 5 San Joaquin Children and Families Commission's response to the Grand Jury Final Report for the following case #1309.

#### **Finding #F1:**

*First 5 failed to comply with California Government Accounting Standards Board Code Section 2300.107f and Statement of Accounting Standards 45 paragraph 11-12 reporting requirements.*

#### **Response to #F1:**

Disagree

The San Joaquin County First 5 Commission pays for an independent audit every year. The independent auditor has not reached the same conclusion regarding interpretation of these standards. The annual independent audit is reviewed by the State Controller's Office (SCO) pursuant to statute. The SCO also has not raised this issue. This Commission will bring the grand jury's recommendation to the attention of the county independent auditor.

#### **Finding #F2:**

*Reporting of associated entity transactions are not disclosed in the First 5 annual audited financial statements for the fiscal year ending June 30, 2009.*

#### **Response to #F2:**

Agree

The independent auditor will be provided a list of programs associated with the Commissioners. In 2008-09, there were three Commissioners associated with programs that publically recused themselves during votes, versus the eight reported by the Grand Jury. It will be the decision of the independent auditor if it is to be included in the audit.



SAN JOAQUIN COUNTY

*Our mission is to  
lead in the creation  
and delivery of  
services that  
improve the quality  
of life for our  
community.*

Per discussion with the independent auditor,  
*The accounting standards referenced by the Grand Jury findings as California Government Accounting Standards Board Code Section 2300.107f is the incorporation of Statement of Financial Accounting Standards No. 57 (FAS 57), a standard typically applicable to private sector organizations and not governments. It was incorporated when the Government Accounting Standards Board issued Statement No. 56 which agreed with the private sector guidance that related-party disclosures should focus on substance over form, but recognized that such assessments pose challenges in a governmental context. Therefore, professional judgment is required to properly interpret private sector guidance for use in governmental accounting and reporting. The purpose of the related party disclosures is to let the reader know about transactions that were not transacted on arms-length terms. Paragraph 15 of FAS 57 states: "Reliability of financial information involves assurance that accounting measures represent what they purport to represent. Without disclosure to the contrary, there is a general presumption that transactions reflected in financial statements have been consummated on an arm's-length basis between independent parties." The Standards board in issuing the statement went on to conclude that the financial statements would not be complete without additional explanations of and information about related party transactions that were made on terms other than arms-length. Since the transactions referenced by the Grand Jury's report were made at arm's length, such disclosure as related party transactions would imply that they were made on other than an arm's length basis. The standards cited by the Grand Jury do not provide a definition of a related party. That guidance is more directed to private companies and it is not tailored to state and local governments. The AICPA Audit Guide, State and Local Governments, lists examples of related parties that include members of the governing body and key employees. While the Commissioners of the First 5 San Joaquin are clearly related parties, the transactions referenced by the Grand Jury's report were not between First 5 San Joaquin and a Commissioner. An example of the parties to the transactions, were First 5 San Joaquin and San Joaquin County Public Health Services, a department of the County of San Joaquin of which a Commissioner is an employee. Since the Commissioner is not a member of the County's Board of Supervisors and would not be in a position to exert influence over the transaction, it is unlikely the accounting rules would consider these transactions as between related parties.*

**Recommendation #R1:**

*Comply with California reporting requirements.*

**Response to #R1:**

Will be implemented

The Commission will bring the grand jury's recommendation to the attention of the independent auditor.

**Recommendation #R2:**

*Annual reports shall disclose amounts awarded to each Commissioner related entity.*

**Response to #R2:**

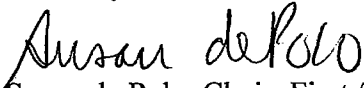
Will not be implemented, independent auditor will decide annual audit report requirements

As stated above, the independent auditor will receive a copy of this report and decide their interpretation of the auditing standards. They will also be provided a list of the Commissioners and the programs associated with their agencies.

First 5 takes seriously the need to disclose the use of public dollars and discloses this in a number of other ways so that the public can be fully aware of how this valuable resource is being spent to improve the health and development of San Joaquin's children. First 5 appreciates the time that the Grand Jury took to review this program.

If you have any additional questions regarding these responses, please contact Lani Schiff-Ross, Children and Families Program Coordinator, at 468-0250.

Sincerely,



Susan de Polo, Chair, First 5 San Joaquin

C: San Joaquin County Board of Supervisors  
Manuel Lopez, County Administrator  
Joseph Chelli, Director, Human Services Agency  
Bobby Magee, Management Analyst III