

December 6, 2018

To the Board of Trustees of
North Bay Developmental Disabilities Services, Inc.
dba North Bay Regional Center

We have audited the financial statements of North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center (the “Center”) for the year ended June 30, 2017, and have issued our report thereon dated December 6, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 19, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”). Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the Center and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Center 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 ended June 30, 2017. We noted no transactions entered into by the Center 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.

The Center provides retirement benefits through its participation in California Public Employees' Retirement System ("CalPERS"). Because most of the member entities in CalPERS are governmental entities, CalPERS calculates the members' funded or unfunded status using methods and actuarial assumptions promulgated by Government Accounting Standard Board ("GASB") No. 68. As a nonprofit organization, the Center uses a different accounting framework based on standards promulgated by the Financial Accounting Standard Board ("FASB"), and ASU 715 requires different methods and actuarial assumptions than GASB. The Center reports its unfunded status using the actuarial report provided by CalPERS using GASB No 68's methods and actuarial assumptions, which are departures from U.S. GAAP. Management did not prepare an actuarial report in accordance with FASB's methods and actuarial assumptions. Accordingly, we were unable to obtain sufficient appropriate audit evidence about the Center's unfunded status by other auditing procedures and have qualified our report for this matter.

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 financial statements were:

- Management's estimate that all receivables are fully collectible; and therefore, there is no allowance for doubtful accounts.
- The actuarial assumptions for the CalPERS defined benefit pension plan.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- The disclosure regarding defined benefit pension plan (Note 5).

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; however, there were delays in obtaining requested information, which lead to the audit being late.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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 auditors' 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 the management representation letter dated December 6, 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 Center's financial statements or a determination of the type of auditors' 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.

Fraud or Violations of Laws and Regulations

There were no fraud or violations of laws and regulations noted.

Communicating Internal Control Related Matters

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following in the Center's internal control to be a material weakness:

The Center's written response to the comment identified in our audit has not been subjected to the audit procedures applied in the audit of financial statements and, accordingly, we express no opinion on it.

Observation

There are no formal written procedures covering personal electronic devices and oversight. We noted that personal electronic devices, such as laptops and cellphones, are not associated to a person and are not monitored. When devices are replaced, there are no procedures regarding the receipt of store credits or cash.

The Center did not have a written policy and there was no adequate management follow-up and monitoring surrounding personal electronic devices.

Recommendation

Lack of oversight exposes the Center to possible fraud, abuse and misstatements. The personal electronic devices might be lost/stolen or disposed of, and the Center will not be able to find out timely and sensitive information on the devices might be compromised.

Personal electronic devices should be more closely monitored and tracked due to sensitive information that might be on the devices and their susceptibility to theft.

We recommend that the Center develop written procedures surrounding personal electronic devices to include, but not limited to:

- Monitor use for personal use and abuse, including use of websites
- Cleaning of data in storage when replaced
- Pre-approval of receipt of store credits or cash and subsequent use

Management's Response

NBRC accepts the recommendations made and has implemented appropriate changes. NBRC has implemented appropriate internal control improvements and has developed written procedures that address Information Technology ("IT"). NBRC's updated procedures include, but are not limited to, addressing sensitive equipment, proper business uses of IT equipment, prohibition of uses, and downloading software. All sensitive equipment is tagged, tracked, and entered into the inventory system by our Accounting Manager. The system ties the sensitive equipment to personnel and their location. The updated procedures are being implemented for the retiring of sensitive equipment as well.

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 Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Independence

There are no matters that we gave significant consideration to in reaching our conclusion that our independence has not been impaired.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. GAAP, 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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We also call to the reader's attention material weaknesses and significant deficiencies reported in our reports issued under *Government Auditing Standards* and Uniform Guidance.

This information is intended solely for the use of the Board of Trustees and management of North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Marcum LLP".

Marcum LLP

Attachment Passed Adjusting Journal Entries

**North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center
Passed Adjusting Journal Entries**

Account	Description	Debit	Credit
Proposed JE # 301			
To record deferred rent.			
01-00-00-02010-00	RECEIVABLE - STATE CLAIM - CY	292,019.00	
01-01-00-30030-00	FACILITY RENT-ADM	97,519.00	
01-00-00-10150-00	DEFERRED RENT		292,019.00
01-00-00-20010-01	STATE INCOME -FY 16-17 POS		97,519.00
Total		<u>389,538.00</u>	<u>389,538.00</u>