



Office of the Auditor-Controller
COUNTY OF HUMBOLDT

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July 15, 2019

Honorable Joyce Hinrichs, Presiding Judge
Humboldt County Superior Court
825 5th Street,
Eureka, CA 95501

Dear Honorable Judge Hinrichs,

It is my distinct privilege to provide to you this letter containing my official responses to the civil grand jury's report, "The Mis-Fortunes of Humboldt County", as requested by our civil grand jury pursuant to Penal Code section 933.05.

In compliance with subdivision (b) of Section 933, which provides the form and content in which I am to respond, I am providing the following responses to the grand jury's findings. Please note that responses were not requested for findings F9 and F10.

Finding F1: Continued diligence, cooperation, and teamwork among the Auditor-Controller, the County Administrative Office, and all Department Heads is vital in balancing the financial sources and revenues in the budget.

Response to F1: I agree with this finding.

Finding F2: The County lacks a year-end reporting process established to guarantee that all Generally Accepted Accounting Practices (GAAP) entries are made for financial reporting.

Response to F2: I agree with this finding. The Auditor-Controller department is investing in training staff on topics related to GAAP – Revenue recognition, interfund activity, accruals of receivables and payables, distinction of accounting basis, distinction of fund types, and reconciliations of fund balance. To immediately address the lacking year-end process, the Auditor-Controller department has distributed to county departments a "Year-end Memo" to notify county staff of processing deadlines for year-end activity as well as to notify county staff of our intention to enforce the deadlines. A copy of the Year-end Memo is included with this letter.

Finding F3: The financial reports currently available to the County Administrative Office and Auditor-Controller are inadequate to produce a balanced budget.

Response to F3: I agree with this finding. A reorganization of the account structure in our financial software combined with enforcement of appropriate accounting practices would address the challenge of generating correct and consistent information with existing reports.

Finding F4: The tracking of the funding sources and uses are not being adequately documented for numerous programs and departments.

Response to F4: I agree with this finding. "Other Funding Sources (Uses)" is a category separate from "Revenues" and "Expenditures". Its purpose is to display activity that does not directly relate to the generation of revenue and expenditures such as cash transfers between funds and budget units, interfund transfers between different departments, and nonreciprocal contributions. Historically, the activity that is appropriately described

as “Other Financing Sources (Uses)” was erroneously comingled with “Revenues” and “Expenditures”, thus overstating the County’s earned revenues and incurred expenditures. As of January 2019, the Auditor-Controller department has increased its level of scrutiny over accounting activity and has adjusted the posting of interfund transactions and transfers on a real-time basis.

Finding F5: Identification and reclassification of County trust funds are essential to improve transparency and accountability.

Response to F5: I agree with this finding. In May of this year, I reassigned all of the County’s existing funds to the 21 existing departments for inclusion on the County’s budget. That work was undone by an external consultant at the direction of the County Administrative Office as the change was too close to the deadline to submit the budget and resulted in significant changes to the budget as presented. I have requested of the County Administrative Office to reassign the funds for inclusion in the first quarter’s budget update presentation to the Board of Supervisors and the public to improve transparency and accountability.

Finding F6: The miscellaneous revenue account has been used, and is continuing to be used, to include revenues that should be posted in specific accounts.

Response to F6: I disagree with this finding, though it may have been true during the grand jury’s active investigation. As of July 1, 2019, the Auditor-Controller department is intervening in the posting of revenue to “Miscellaneous Revenue” when it can be appropriately classified and posted elsewhere. We are examining the sources of, and reasons for, revenue received and ensuring that it gets posted to the right account by overriding requested postings when necessary.

Finding F7: Improved diligence, cooperation, and teamwork are vital in determining the appropriate object code listings required for the proper management of Inter-Fund transfers.

Response to F7: I agree with this finding. The Auditor-Controller department has provided all departments reference to the State Controller Office’s Accounting Standards and Procedures (ASP) manual that outlines how we will post interfund activity as well as hosted trainings specifically geared towards object codes. Several departments have invested their staff time by attending these trainings and participating in discussions related to accounting for internal activity.

Finding F8: The Accounting Services Improvement Working Group was formed to develop the Auditor-Controller Policies and Procedures for all County departments. This committee is not functioning as envisioned by the consultants.

Response to F8: I agree with this finding and I disagree with the consultant’s recommendation. The Auditor-Controller’s Policies and Procedures are outlined for the Auditor-Controller in Federal government code, State government code, Health and Safety code, County Code, Internal Revenue Code, Generally Accepted Accounting Principles, Government Auditing Standards, etc., and in most cases, are not negotiable. The consultants from CPS HR Consulting that came to Humboldt County had no prior experience in auditing, accounting, or finance and were therefore unqualified to make such a recommendation. I contend that they were unqualified to assess the Auditor-Controller department in general as they made misinformed and potentially dangerous recommendations in their report. Most notably, they recommended that we reduce the number of internal controls in place, thus undermining the function of the Auditor-Controller as the public’s watchdog.

Finding F11: The County has adopted a Capital Asset Policy but has not implemented this policy.

Response to F11: I agree with this finding. The Capital Asset Policy was passed by the Board of Supervisors but was not understood by most departments outside of the Auditor-Controller department. The Auditor-Controller department is actively trying to train departments on the Capital Asset Policy but because there is no county-wide agreement or messaging that immediate implementation of the board-approved policy is necessary, the Auditor-Controller department is struggling to implement it.

Finding F12: The Auditor-Controller's Office lacks the staff to provide and implement training plans for its employees.

Response to F12: I agree with this finding. With only 12 employees, sending multiple staff to training results in significant impact to the staff remaining in the office. Sending just 3 employees to a training results in immediate lost productivity of at least 25%. In spite of this inadequate staffing, I am continuing to invest in staff's training because the benefit of improved employee morale and improved services in the long-run outweigh the cost of the immediate loss of productivity. Ideally, the Auditor-Controller department would be allocated sufficient staffing to allow for regularly scheduled, continuing professional education for all of its staff.

Finding F13: Proper training is lacking in most County Departments regarding the government accounting requirements related to the responsibilities of their office.

Response to F13: I agree with this finding. Accountants and auditors are trained to follow prescribed accounting and auditing guidelines that govern their work. Departments do not hire accountants because it is difficult to attract accounting staff at the low salary the county offers for the accountant job classification. To attract more applicants for fiscal-related positions, departments allocate staff for different positions, such as "Budget Specialist", "Administrative Analyst", or "Business Manager". These positions get paid more than Accountants and don't require the same formal, long-term, technical accounting theory training. Governmental Accounting is usually offered as an advanced class in specific accounting programs and is not generally offered for general finance and management studies.

Finding F14: The Auditor-Controller Office has encountered a lack of cooperation from County staff in its efforts to carry out its legal responsibilities, and has raised specific concerns about its working relationship with the Human Resources Payroll Office.

Response to F14: I agree with this finding. The Auditor-Controller department has successfully collaborated with several departments in implementing corrections to past accounting practices and we very much look forward to continuing that work. Despite multiple attempts to carry out my duties as Auditor-Controller with regard to the oversight of Payroll transactions, there has been no resolution. Despite multiple attempts by Auditor-Controller staff to resolve communication issues and missing internal controls, there has been no resolution. It is my opinion that the Board of Supervisors should reconsider their decision to move Payroll staff into the Human Resources department and either 1) put Payroll staff back under the oversight of the Auditor-Controller or 2) outsource the entire Payroll function to an external third party, such as Paychex or ADP.

Finding F15: Assets in the County Treasury are not being audited on a regular schedule due to a significant lack of staffing in the Auditor-Controller's Office.

Response to F15: I agree with this finding.

Finding F16: There is a high risk of fraud in a number of County departments due to their poor cash handling policies and procedures, improper accounting, and lack of accountability.

Response to F16: I agree with this finding.

In compliance with subdivision (b) of Section 933, which provides the form and content in which I am to respond, I am providing the following responses to the grand jury's recommendations. Please note that responses were not requested for recommendations R8, R9, and R12.

Recommendation R1: The Humboldt County Civil Grand Jury recommends the Board of Supervisors ensure that the Auditor-Controller's Office is fully funded so that the staffing and functions of the office can be fulfilled with due diligence. This should be completed by January 15, 2020.

Response to R1: This recommendation has not yet been implemented and I am not aware of the Board's intention to implement it in the future. Previous staffing allocations to the Auditor-Controller department have not been sufficient and the need for additional staffing has only been exacerbated by the Board's multiple

decisions to increase the volume of service contracts, transfer budget appropriations, provide supplemental budgets to other departments, increase staffing in other departments, increase spending commitments, delay tax collection, increase capital projects, and split Payroll processes. Previous staffing allocations to the Auditor-Controller were insufficient and given the amount of work necessary to address and correct the County's multiple audit findings within a short time frame, additional staffing is now a critical need. I was made aware prior to the 2019-2020 budget being presented to the board, that the County Administrative Office would not be recommending approval of additional staffing because staffing is an ongoing expense. I am working on an item to bring to the Board to formally request additional staffing for the Auditor-Controller department.

Recommendation R2: The Humboldt County Civil Grand Jury recommends that the Auditor-Controller's Office develop and maintain a "timelines" metric for measuring the response time and compliance for departments to complete all Generally Accepted Accounting Principles (GAAP) entries necessary for financial reporting in preparation for the external auditor. This report should be presented to the Board of Supervisors to direct the County Administrative Office to take the necessary measures to enforce future compliance. This should be completed by October 1, 2019.

Response to R2: The recommendation to the Auditor-Controller to develop and maintain a "timelines" metric for departments to submit information in preparation for the external audit has been implemented. I prepared the Year-End memo (submitted with this letter) to notify departments of the deadlines. I can work on the recommended report for the Board of Supervisors.

Recommendation R3: The Humboldt County Civil Grand Jury recommends the Board of Supervisors direct the Auditor-Controller's office to conduct an audit of the Human Resources Payroll Office. This should be completed by October 1, 2019.

Response to R3: This recommendation has not yet been implemented. This decision rests with the Board of Supervisors and I am not aware of their intention regarding this recommendation. Should the Board choose to direct the Auditor-Controller department to audit Human Resources, we will certainly do so.

Recommendation R4: The Humboldt County Civil Grand Jury recommends the Board of Supervisors review its recent decision to transfer the Payroll responsibilities from the Auditor-Controller's Office to the Human Resources Department. This should be completed by October 1, 2019.

Response to R4: The recommendation has not yet been implemented and I agree that it is necessary. I am not aware of the Board's intention regarding this recommendation, but I would encourage them to reconsider the decision to transfer Payroll responsibilities to the Human Resources department.

Recommendation R5: The Humboldt County Civil Grand Jury recommends the Auditor-Controller's Office review the payroll system master file change log, showing all changes made to the payroll information and ensure it reflects accurate and complete information. This should be completed by October 1, 2019.

Response to R5: This recommendation has not yet been implemented and I am unsure of when we will be able to implement it as access to review the payroll source documents that trigger changes to payroll information has not been restored to the Auditor-Controller department. We can review the master file change log to see what changes have been made but we won't know if the changes are correct, warranted, or legally appropriate without the original documents from the employee to compare to.

Recommendation R6: The Humboldt County Civil Grand Jury recommends the Auditor-Controller's Office analyze payroll registers obtained from the Payroll Department to ensure it has sufficient information for monitoring payroll disbursements each pay period. This should be completed by October 1, 2019.

Response to R6: This recommendation has not yet been implemented and I am unsure of when we will be able to implement it as access to review pertinent Payroll information has not been restored to the Auditor-Controller department.

Recommendation R7: The Humboldt County Civil Grand Jury recommends the Board of Supervisors approve funding for MAXCAP or equivalent software if deemed necessary by the Auditor-Controller. This should be completed by January 15, 2020.

Response to R7: The Auditor-Controller department will research MAXCAP and MAXCAP's competitors to arrive at a full understanding of the services and/or software they can provide. We will compare that information to what we currently receive from MGT (the vendor who puts the Cost Plan together for the County) and the staff time it takes us to compile the information to give to MGT. We will have this research done by November 30, 2019 (the deadline to submit the Cost Plan to the State Controller's Office). If funding for MAXCAP is warranted, we will request funding from the Board of Supervisors by the January 15, 2020 deadline.

Recommendation R10: The Humboldt County Civil Grand Jury recommends the Treasurer's Office continue to work with Auditor-Controller's Office to establish and implement Cash Handling Procedures by October 1, 2019.

Response to R10: Implementation of this recommendation has already begun as the Treasurer, John Bartholomew, and I have met to discuss areas for improvement in cash handling procedures. We will continue to work together and I anticipate that we will have documented cash handling procedures implemented by October 1, 2019.

Recommendation R11: The Humboldt County Civil Grand Jury recommends that consultants specializing in organizational communication and team building be retained to train staff and management in the (as a minimum): Auditor-Controller's Office, County Administrative Office, Human Resources Office, Information Technology Office, and Department of Health and Human Services. This should be done by October 1, 2019.

Response to R11: This recommendation has been implemented, though we will continue to build upon the recommended training. All staff in the Auditor-Controller department have received 1-on-1 coaching by a management coach who specializes in interpersonal communication. Staff in the Auditor-Controller department have also participated in trainings related to emotional intelligence, management, communication, and writing styles. The Auditor-Controller department also intends to participate in any county-wide or interdepartmental training related to communication and customer service.

Recommendation R13: The Humboldt County Civil Grand Jury recommends that software training for County Department staff be contracted into future software purchases and implementations. This should be completed each time a contract is negotiated and signed.

Response to R13: I agree with this recommendation and will participate in its implementation when asked. I don't have authority in regard to contracts other departments sign on to.

Recommendation R14: The Humboldt County Civil Grand Jury recommends that the County Administrative Office reconvene the Accounting Services Improvement Working Group and that it conduct regular meetings to implement consultants' recommendations. This should be completed by October 1, 2019.

Response to R14: This recommendation has not been implemented nor do I think it needs to be. Also, the Auditor-Controller department is an independent, elected office and does not operate at the direction of the County Administrative Office. In lieu of the Accounting Services Improvement Working Group, I would encourage the formation of an Audit Committee.

Recommendation R15: The Humboldt County Civil Grand Jury recommends the Auditor-Controller and the County Administrative Office complete the reconciliation of all trust funds in every department within the County. This should be completed by October 1, 2019.

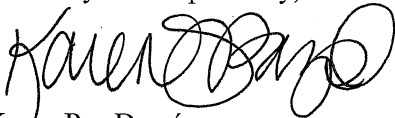
Response to R15: This recommendation has not been implemented yet but we do intend to complete implementation by October 1, 2019.

Recommendation R16: The Humboldt County Civil Grand Jury recommends the Capital Asset Policy that has been adopted by the County be implemented by January 15, 2020.

Response to R16: This recommendation has not been implemented but we do intend to complete implementation by January 15, 2020. The Auditor-Controller department will include staff from Public Works, Purchasing, and DHHS in discussions surrounding implementation of the Capital Asset Policy.

Thank you for the opportunity to respond and thank you very much for the efforts and diligence of the Humboldt County Civil Grand Jury.

Sincerely and respectfully,



Karen Paz Domínguez
Humboldt County Auditor-Controller

Cc:

Humboldt County Civil Grand Jury
Rex Bohn, District 1 Supervisor
Estelle Fennell, District 2 Supervisor
Mike Wilson, District 3 Supervisor
Virginia Bass, District 4 Supervisor
Steve Madrone, District 5 Supervisor
Kathy Hayes, Clerk of the Board
Amy Nilsen, County Administrative Officer
John Bartholomew, Treasurer – Tax Collector

Ryan Burns, Lost Coast Outpost
Shomik Mukherjee, Times-Standard