



COUNTY OF HUMBOLDT

For the meeting of: 2/23/2021

File #: 21-233

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

SUBJECT:
Outstanding Financial Transactions

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive the staff report and provide direction as needed; and
2. Authorize the Auditor-Controller (AC) to post all remaining financial transaction in FY 2019-20 prior to closing of the fiscal year.

SOURCE OF FUNDING:

Numerous County Funds

DISCUSSION:

On Nov. 23, 2020, staff brought your Board a report on a number of financial concerns surrounding outstanding financial transactions. Staff followed that report with a budget update on Jan. 26, 2021. Both of these reports detailed the below items reported as outstanding and today's report provides an update following recent developments.

Outstanding Item #1: Closing of FY 2019-20

In the normal course of business, the county's books are closed by the Auditor-Controller (AC) following a reasonable period of time after the end of a given fiscal year (June 30). Closing the books means that all financial transactions have been properly recorded and accounted for in the county's accounting system. After the fiscal year is closed, the county's financial statements are prepared. Then, independent auditors audit these financial statements, as required by law.

In the past, closing the fiscal year was completed in September or early October, approximately 3 months after the end of the prior fiscal year. Through the Nov. 23 report, your Board heard from the Auditor-Controller on year-end closing and she at that point indicated that the year would close on Dec. 18. This did not happen.

Update:

On Feb. 11, 2021, the AC sent fiscal staff an email informing them of a decision to close the fiscal year 2019-20 “as is” while using prior period adjustments to address outstanding financial transactions in FY 2020-21. As of Feb. 19, the closing had not been finalized.

This decision has long-term ramifications for this county, including:

1. Timely closing the year conveys the representation from management that all material transactions have been correctly accounted for. The closed fiscal year is expected to reflect the best efforts to capture transactions so that the financial operations, financial condition, and cashflows of the county are properly accounted for, measured and reported. Financial Statements that do not reflect all material transactions will likely result in additional negative audit findings therefore impacting the county’s credit rating. A decline in the county’s credit rating means less access to financing, and increased scrutiny and possible performance improvement plan from the county’s insurance carrier.
2. Prior Period Adjustments are used by management to correct discovered accounting errors for closed/prior period financial statements. When auditors catch errors, these are called audit adjustments. The auditor will require the audit client to “post” these audit adjustments. This is not an appropriate tool to quickly close a fiscal year and will likely result in additional negative audit findings potentially impacting the county’s credit rating. A decline in the county’s credit rating means less access to financing, and increased scrutiny and possible performance improvement plan from our insurance carrier.

Staff have identified the following financial transactions associated with FY 2019-20 that have not yet been processed. Staff began submitting the majority of these transaction following year-end in June 2020, with the most recent item submitted in Dec. 2020 following the final CalCard postings and accruals for FY 2019-20 that were continuing to post for June 2020. Staff have followed up on these transactions with at least twenty email correspondences. In order to avoid unnecessary audit findings and the need for inappropriate prior period adjustments, staff recommends that your Board direct the AC to post these transactions, along with any other transactions previously submitted by departments, in FY 2019-20 prior to the final closing of the fiscal year.

Amount	Description
48,743.00	Salary transfer from Communications to County Administrative Office
49,331.00	Salary transfer from ADA to County Administrative Office
283,518.72	Excess building permit fee revenues
1,793,201.00	COP transfers
388,220.36	Payoff of fund 3467 for 2016 Finance Plan
96,921.00	Accruals for 4th quarter Measure Z EPD and KMUD allocations paid in FY 20-21
369,912.00	PSPS restricted cash
2,677.00	Donation restricted cash
354,389.00	Grant reimbursements to be posted as account receivables
188,353.00	FEMA reimbursements to be posted as account receivables
44,318.25	Court facilities payment belonging to FY 20-21
2,000.00	Courthouse Café rent transfer
788,598.71	Interest due to the General Fund for FY 2018-19 3rd and 4th quarters
15,131.00	ADA charges to IT
27,140.00	CARES Act expense transfers
1,434,362.12	CARES Act sick leave transfer, submitted
3,478,518.00	Health insurance error correction
757,390.00	Prop 172 Accruals
217,545.00	DHHS Admin charges
284,654.00	CWS CAST
10,806,591.16	

Outstanding Item #2: Delays in Interest Apportionment

Quarterly, the Treasurer is required to determine how much interest should be apportioned across all interest-bearing funds based on the average daily balance of those funds throughout each quarter. The average daily balance cannot be calculated until the Auditor-Controller posts and reconciles all transactions that took place during that quarter. Interest is then equitably distributed to all treasury pool participants including the schools and community college, special districts, and the county’s General Fund. The General Fund relies on the timely apportionment of interest to fund critical local services. At the time of these reports, the General Fund had not received \$1.3 million in interest revenue since the second quarter of FY 2018-19. Interest apportionment has been routine in the past.

Update:

On Feb. 11, the Auditor-Controller has moved \$366,220 of interest revenue to funds your Board does not have access to and apportioned only \$188,112 to the General Fund. Interest revenue totaling \$788,599 associated to FY 2018-19 remains unavailable to the General Fund. This means your Board has not received \$1.1 million in discretionary revenue rightfully due in accordance with Government Code.

Outstanding Item #3: FY 2020-21 Cost Allocation Plan (CAP)

The county is required to have a state-approved CAP to receive reimbursement from state and federal agencies for internal service and central service costs.

The negative impact of not having a CAP for FY 2020-21 is an estimated loss of federal and state dollars in the amount of \$15.3 million.

A loss of \$15.3 million creates an estimated deficit of \$6.1 million across 5 funds (ADA, Information Technology, Liability, Purchasing and Workers Compensation). The General Fund is the only source of funding to reduce these estimated negative fund balances. This would place the county in a self-made financial crisis, one that could result in service reductions in service to the public and lay-offs of county staff.

Update:

As of Feb. 16, 2021, the Cost Allocation Plan still has still not been submitted to the State Controller's Office. This plan is worth approximately \$24 million and could result in an estimated loss of \$4.7 million to the General Fund, and a loss of \$15.3 million in state and federal dollars.

FINANCIAL IMPACT:

Pertaining to the FY 2020-21 CAP issue alone:

Not being able to seek reimbursement from state and federal agencies for an estimated \$15.3 million in fiscal year 2020-21 cost allocation plan charges could result in significant financial consequences for the county including critical service reductions and the furlough and lay-off of county employees.

In addition, the approach to close the fiscal year 2019-20 "as is" while using prior period adjustments would likely result in additional audit findings. This could result in a decline in the county's credit rating means less access to financing, increased scrutiny and possibly the requirement to participate in a performance improvement plan from the county's insurance carrier.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by providing for and maintaining infrastructure , providing community-appropriate levels of service, managing resources to ensure sustainability of services and investing in county employees.

OTHER AGENCY INVOLVEMENT:

None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

None

PREVIOUS ACTION/REFERRAL:

Board Order No.: B-1, K-11

Meeting of: 11/23/2020, 1/26/21

File No.: N/A