



Office of the Auditor-Controller
COUNTY OF HUMBOLDT
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August 16, 2022

The County of Humboldt respectfully submits the following corrective action plan for the year ended June 30, 2020.

Audit period: July 1, 2019 to June 30, 2020

The findings from the schedule of findings and questioned costs are discussed below.

The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

Material Weakness:

2020-001 Closing procedures

Recommendation: We recommend that reconciliations of significant accounts, including cash with fiscal agent (PARS), capital assets, interfund loans and transfers, long-term receivables and unavailable revenue be performed at least once a year prior to closing to ensure that the County's general ledger is accurate. Also, we recommend the County modify its chart of accounts for significant accounts that should reconcile throughout the year such as interfund transfers and advances which are currently being recorded to various account numbers.

We further recommend the County develop a formal year-end closing schedule that indicates specific personnel responsibilities and corresponding time requirements to ensure all significant account balances are reviewed and reconciled during year-end closing.

Explanation of disagreement with audit finding: No disagreement.

Action planned in response to finding: Once staffing levels in the department are stabilized, the County will develop a formal year-end schedule which assigns individual staff to tasks associated with closing a fiscal year and provides a specific timetable for completion of such tasks. The County has assigned reconciliation of payroll accounts to the payroll division, cash accounts to staff in the County Administrative Office (CAO) and will continue to assign reconciliation of significant accounts to

personnel who are available, trained and possess the necessary skills to perform the work. The County has contracted with a third-party consultant to assist with modifying the chart of accounts and creating reports that will allow the County to more easily reconcile the interfund transfers.

Name(s) of the contact person(s) responsible for corrective action:
Cheryl Dillingham, Auditor Controller

Planned completion date for corrective action plan: 12-31-2022

2020-002 Number of funds

Recommendation: We recommend the Auditor-Controller's Office implement the following procedures:

Analyze each of its governmental trust funds to determine if there is a particular need to account for resources separately from the operating funds of the County. Close several of these trust funds to combine the balances and activities of these funds with existing County operating funds.

Explanation of disagreement with audit finding: No disagreement.

Action planned in response to finding: Once staffing levels in the department are stabilized, staff will review each fund and determine the necessity of each fund and whether it is structured appropriately. The County has contracted with a third-party consultant to assist in transitioning unnecessary funds to balance sheet accounts, and combining and closing funds, as appropriate, and better utilizing the County's financial software system.

Name(s) of the contact person(s) responsible for corrective action:
Cheryl Dillingham, Auditor Controller

Planned completion date for corrective action plan: 6-30-2023

2020-003 Fortuna Fire District

Recommendation: We recommend the County work closely with the District to establish a system for tracking and reporting its capital assets, especially with the District's recent purchase of a new fire engine. We further recommend the District engage with its current auditors or another entity to audit its complete listing of capital assets to remove the adverse opinion from its audit report.

Explanation of disagreement with audit finding: No disagreement.

Action planned in response to finding: The first step is to meet with the District's personnel in order to establish a working relationship with the new Auditor-Controller. At that meeting or subsequent meetings, the parties can discuss how to resolve the ongoing audit finding regarding the District's capital assets. There is no reason to believe that a resolution cannot be reached and it is in the best interest of both parties.

Name(s) of the contact person(s) responsible for corrective action:
Cheryl Dillingham, Auditor Controller

Planned completion date for corrective action plan: 2-28-2023

2020-004 Receivables

Recommendation: We recommend the County establish procedures to ensure subsequent receipts are reviewed for the correct revenue recognition period. We further recommend that year-end receivable balances posted to the general ledger at year-end are reviewed by both the auditor-controller's office and the departments submitting the accounts receivable listing for posting. This review should include an analysis of the beginning balances rolling forward from the prior reporting period.

Explanation of disagreement with audit finding: No disagreement.

Action planned in response to finding: Prior to posting any additional Accounts Receivable amounts for FY 20-21, the Auditor Controller's office will review, correct and validate any current Accounts Receivable balances. This will be an interactive process working with departments to confirm the current status of ending balances.

As part of the year end closing procedures for FY 20-21, the Auditor-Controller's office will request that departments forward their year-end Accounts Receivable amounts along with backup documentation to substantiate the amounts and validity of the account. As these department Accounts Receivable amounts are validated by the Auditor Controller's office, they will be posted to Finance Enterprise and departments will be instructed to track subsequent payments to ensure that the outstanding Account Receivable is reduced instead of deposit to a revenue or other account.

At mid-year, the Account Receivable accounts will be reviewed and reconciled to ensure that payments were properly accounted for and if any adjustments need to be posted.

Name(s) of the contact person(s) responsible for corrective action:
Cheryl Dillingham, Auditor Controller

Planned completion date for corrective action plan: 12-31-2022

2020-005 Subsequent Disbursements

Recommendation: We recommend the County review accounts payable disbursement controls in place to ensure subsequent disbursements are reviewed, after the department cutoff period, to ensure expenses are reported in the correct period.

Explanation of disagreement with audit finding: No disagreement.

Action planned in response to finding: The Auditor Controller's office will run reports by fund detailing the invoices posted in June 2021, with a particular focus on June 30, 2021, invoices to ensure that the invoices were reported in the correct year. The Auditor Controller's office will also run reports by fund detailing disbursements made in July and August to ensure that the corresponding invoices paid have been reported in the correct year. Copies of these reports will also be distributed to departments for additional review and feedback.

For FY 21-22 going forward, departments will be instructed to enter invoices into the County's financial system based on the fiscal year that goods and services were received. Invoices will be reviewed by the Auditor Controller's office prior to payment to ensure that they are posted to the proper year.

Name(s) of the contact person(s) responsible for corrective action:
Cheryl Dillingham, Auditor Controller

Planned completion date for corrective action plan: 11-15-2022

2020-006 Interfund activity

Recommendation: We recommend the County develop formal procedures for reconciling the County's interfund activity throughout the year. The County should identify all interfund transactions that do not meet the definition of "transfers" and report those transactions appropriately.

Explanation of disagreement with audit finding: No Disagreement.

Action planned in response to finding: Once staffing levels are stabilized in the department, the first step in properly reporting interfund transactions is to develop a guide for departments and Auditor Controller's Office staff to use when drafting journal entries and other transactions that cross funds. Making the guide available and providing a base level of training will assist in properly reporting these transactions. Developing and implementing quarterly financial reporting processes, which include reconciling interfund transfers and transactions will make reconciling

interfund activity more manageable by limiting the number of transactions to reconcile and allowing for proper reporting of transactions going forward. Additionally, reducing the number of funds will also reduce the number of interfund transactions.

Name(s) of the contact person(s) responsible for corrective action:
Cheryl Dillingham, Auditor Controller

Planned completion date for corrective action plan: 3-31-2023

2020-007 Cash Reconciliation

Recommendation: We recommend the Auditor-Controller's Office reconcile the total cash and investments balance in the County's financial system to the total cash and investments reported in the Treasurer's daily cash balance report on a regular basis. The Auditor-Controller's reconciliation of cash and investments should begin with the total cash and investments reported in the Treasurer's daily cash balance to ensure the cash reported in the general ledger is complete and accurate. Any reconciled differences should be resolved, and any journal entries deemed necessary as a result should be recorded. The reconciliation should include a review of the outstanding check listings, including those provided by external parties such as school districts who maintain cash in the Treasurer's pool, for accuracy.

The County should also consider engaging with outside consultants to perform these timely reconciliations if the auditor-controller's office does not have the experience or resources to stay current with the monthly cash reconciliations.

Finally, we recommend that that formal reconciliation instructions for monthly cash reconciliations be developed and should at a minimum, include the following matters: purpose, timetables outlining appropriate due dates, sample formats and schedules and instructions for schedules to be prepared.

Explanation of disagreement with audit finding: No disagreement.

Action planned in response to finding: In order to complete the FY 19-20 Cash and Bank Reconciliations, daily reconciliations were completed. Staff outside the Auditor Controller's Office were utilized for this project. Daily deposits were reconciled to the daily posted cash receipts in the Finance Enterprise software. Once staffing levels in the department are stabilized, this process will be incorporated into the daily operations of the Auditor Controller's Office, so that timely cash reconciliations are completed and monthly bank reconciliations are more manageable.

Name(s) of the contact person(s) responsible for corrective action:
Cheryl Dillingham, Auditor Controller

Planned completion date for corrective action plan: 12-31-2022

2020-008 Trial Balance

Recommendation: We recommend the County develop both month-end and year-end closing schedules which includes all tasks necessary to close the periods. The list should, at a minimum, include the following: the month-end period; a list of month-end tasks (for example, cash reconciliation, interfund transfers reconciliations, etc.); the due date for each task and the responsible employee and management reviewer for each task with accompanying signed initials at completion.

We further recommend the County institute a program to methodically identify and document its significant operational and accounting processes for employees to follow when key employees leave the organization.

Explanation of disagreement with audit finding: No disagreement.

Action planned in response to finding: In an effort to bring the County's financial records current and complete outstanding and delinquent financial reports, the County will be completing back-to-back to year-end closing processes for FY 20-21 and FY 21-22. In order to complete that process, the County will develop schedules and task list that can be used for both month-end and year-end closing processes. This will ensure that tasks are completed and in a timely manner.

Name(s) of the contact person(s) responsible for corrective action:
Cheryl Dillingham, Auditor Controller

Planned completion date for corrective action plan: 12-31-2022

For questions regarding this plan, please call Tabatha Miller, (707) 456-2452.