



GRAND JURY
COUNTY OF HUMBOLDT

825 FIFTH STREET
EUREKA, CALIFORNIA 95501-1153 PHONE (707) 476-2475

7/11/19

July 11, 2019

Humboldt County Administrative Officer
825 5th Street
Eureka Ca, 95501

Re: Enclosed Report: **The Mis-Fortunes of Humboldt County**

Dear Ms. Nilsen,

On behalf of the 2018-2019 Grand Jury, I am providing to you the following report:

The Mis-Fortunes of Humboldt County

This report is being provided to you in advance of its general release pursuant to Penal Code section 933.05, subdivision (f), which provides:

A grand jury shall provide to the affected agency a copy of the portion of the grand jury report relating to that person or entity two working days prior to its public release and after the approval of the presiding judge. **No officer, agency, department, or governing body of a public agency shall disclose any contents of the report prior to the public release of the final report.**

It is very important that you comply with this confidentiality requirement.

The Penal Code also prescribes the obligations of a governing board or elected county official with regard to responding to the grand jury's findings and recommendations. Specifically, if the report contains one or more recommendations directed to you as an elected county official, or to the governing board of which you are a member, you must respond to those recommendations and to the supporting findings, as directed in the report.

The time within which to respond is prescribed by subdivision (c) of Penal Code section 933, which states in relevant part:

No later than 90 days after the grand jury submits a final report on the operations of any public agency subject to its reviewing authority, the governing body of the public agency shall comment to the presiding judge of the superior court on the findings and recommendations pertaining to matters under the control of the governing body, and every elected county officer or agency head for which the grand jury has responsibility pursuant to Section 914.1 shall comment within 60 days to the presiding judge of the superior court, with an information copy sent to the board of supervisors, on the findings and recommendations pertaining to matters under the control of that county officer or agency head and any agency or agencies which that officer or agency head supervises or controls. In any city and county, the mayor shall also comment on the findings and recommendations. **All such comments and reports shall forthwith be submitted to the presiding judge of the superior court who impaneled the grand jury.**

The Penal Code also prescribes the content of your responses. Subdivisions (a) through (c) of Penal Code section 933.05 state:

- (a) For purposes of subdivision (b) of Section 933, as to **each grand jury finding**, the responding person or entity shall indicate one of the following:
 - (1) The respondent agrees with the finding.
 - (2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed **and shall include an explanation of the reasons therefor.**
- (b) For purposes of subdivision (b) of Section 933, as to **each grand jury recommendation**, the responding person or entity shall report one of the following:
 - (1) The recommendation has been implemented, **with a summary regarding the implemented action.**
 - (2) The recommendation has not yet been implemented, but will be implemented in the future, **with a time frame for implementation.**
 - (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, **and a time frame for the matter to be prepared for discussion** by the officer

or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the grand jury report.

- (4) The recommendation will not be implemented because it is not warranted or is not reasonable, **with an explanation therefor.**
- (c) However, if a finding or recommendation of the grand jury addresses budgetary or personnel matters of a county agency or department headed by an elected officer, both the department head and the board of supervisors shall respond if requested by the grand jury, but the response to the board of supervisors shall address only those budgetary or personnel matters over which it has some decision making authority. The response of the elected agency or department head shall address all aspects of the findings or recommendations affecting his or her agency or department.

Please be aware that your responses will be a matter of public record and widely read by both community members and local media. Therefore, it is important that your responses be as clear and specific as possible. A response that is vague, does not provide a clear explanation of any action that has or will be taken, or that does not include a specific time frame for implementation, is neither helpful nor legally sufficient. Furthermore, if a response does not comply with the applicable provisions of the California Penal Code, you may be directed by the presiding judge to provide an amended response.

Please send your response addressed to the Honorable Joyce Hinrichs, Presiding Judge, Humboldt County Superior Court, 825 5th Street, Eureka, CA 95501 with a copy to the Civil Grand Jury, within the time period provided in subdivision (c) of Penal Code section 933 (see above).

The 2018-2019 Humboldt County Civil Grand Jury reports, and the responses to them, will be posted on the Grand Jury's website. We would appreciate receiving an electronic copy, as well as a signed hard copy, of your response. You may email a copy to <grandjury@co.humboldt.ca.us>.

Thank you for your cooperation in providing a meaningful and timely response.

Sincerely,

A handwritten signature in blue ink, appearing to read "Joseph Kravitz", with a long horizontal flourish extending to the right.

Joseph Kravitz, Foreperson

Humboldt County Civil Grand Jury

The Mis-Fortunes of Humboldt County

SUMMARY

Allegations surfaced in 2017 that the Auditor-Controller's staff was not functioning in a manner that could provide for the responsible management of funds and accounting needs of Humboldt County. These allegations became public when a staff member spoke at a Humboldt County Board of Supervisors' (BOS) meeting.

As a result of these allegations, the BOS hired independent consultants to conduct an audit and review of the management of the Auditor-Controller's office. The results of the report and payment were approved by the BOS.

The Humboldt County Civil Grand Jury reviewed these reports and the findings and recommendations they contained. We then investigated the steps Humboldt County government has taken to address the recommendations in the independent consultants' reports.

BACKGROUND

This Humboldt County Civil Grand Jury (Civil Grand Jury) report summarizes recommendations made by the independent consultants and the steps the County has taken to address these recommendations. Not every recommendation by every consultant is considered in our report. We instead focus on the consultants' recommendations which have the most significant impact on financial integrity and accounting transparency.

During public testimony to the BOS in November 2017, it was alleged the Auditor-Controller's staff was failing to perform its duties and exposing the County to "unethical and fraudulent financial activity." In response to the above allegations, on February 7, 2018, the BOS directed the County Administrative Officer (CAO) to secure independent firms with organizational and accounting expertise to conduct management and accounting reviews of the Auditor-Controller Office's (ACO) policies and procedures. In March 2018, the County approved contracts to perform those reviews with Craig Goodman CPA (CG) and with Cooperative Personnel Services Human Resources (CPS HR). In addition, CliffordLawsonAllen (CLA), an independent accounting firm, performed the annual audit of the financial statements for the fiscal year ending June 30, 2017. This audit provided relevant information regarding these issues.

The Civil Grand Jury was concerned with the findings and recommendations from the three independent firms, CG, CPS HR, and CLA, and decided to investigate the issues. The investigation reviewed the County's responses to the suggested corrective actions and evaluated the progress in resolving these issues.

METHODOLOGY

In preparation for this report, the Civil Grand Jury:

- Reviewed Board of Supervisors' meeting agendas and minutes
- Reviewed independent consultants' reports on the accounting, budget, and management practices of the Auditor-Controller Office
- Researched State law as it applies to Humboldt County budget and financial accountability
- Conducted interviews with Humboldt County officials and staff
- Reviewed relevant news articles and online resources
- Reviewed the operations of other Auditor-Controller offices within California
- Reviewed the upcoming audit report from CliffordLawsonAllen LLP for the year ending June 30, 2018
- Reviewed contracts for providing software and training for the County's accounting system

DISCUSSION

The State of California has established legal requirements for budgets and accounting processes. The County Budget Act (Government Code Sections 29000-29144) sets forth the authority and requirements for creating and amending the County Budget. The State Controller has prescribed mandatory forms for use in the presentation of the annual adopted budget.

In addition, the State has published the Accounting Standards and Procedures for Counties (ASP Manual) to satisfy its requirements in Government Code section 30200. The ASP Manual details the uniform chart of accounts, fund structures, functions and activities, and includes specific accounting procedures for specialized fields. Its intent is to ensure conformance with Generally Accepted Accounting Principles (GAAP) to facilitate comparison and analysis of county financial reports on a statewide basis by minimizing differences between counties' philosophies, methods, and terminologies.

The following issues are from the report submitted to the Board of Supervisors on June 19, 2018, by the firm of Craig Goodman CPA (CG), unless otherwise specified.

For each issue in the report the format is as follows:

- *Consultant's Finding*
- *Consultant's Recommendation*
- *CAO Staff Follow-up Response regarding CG report to Board of Supervisors*
- *Grand Jury Discussion*

1. *Consultant's Findings: When looking at the County of Humboldt current and past year budgets, I was unable to find the required budget schedules prescribed by the State Controller's Office in the County Adopted Budget. I was directed to some of the State Controller's Office (SCO) reports in the adopted budget agenda item for the current fiscal year.*

CG Recommendation: *The CAO either include all required State Controller Office (SCO) budget schedules in the County's adopted budget or submit alternative schedules to the state Controller's Office for pre-approval as a substitute for the required schedules.*

CAO Staff Follow-up Response: *The County Administrative Office (CAO) is currently working with a contractor to create all the budget schedules in ONESolution as required per the State Controller's County Budget Guide. The county is currently able to provide a limited number of budget schedules through the county's accounting application, ONESolution. However, these budget schedules do not include a fund's balance as required by the County Budget Guide. Comprehensive budget schedules should be available for fiscal year 2019-20.*

Grand Jury Discussion: A significant barrier to providing budget schedules is projected to be addressed by upgrading the ONESolution accounting software. The current version of ONESolution is unable to produce the necessary financial reports. This upgrade 18.1 will be named Finance Enterprise and has not yet been completed, having been delayed numerous times this year. From what we learned, this may be mostly due to a lack of cooperation by numerous County department heads and staff who have not been trained properly on the software. The Civil Grand Jury learned that the software is complex and the training is extensive. During our investigative interviews, staff stated that a sense of apprehension seems to be a barrier to progress. A consultant familiar with the ONESolution software is scheduled to come and assist with the accounting and the production of the budget schedules. This training was expected to be completed by June 2019; the contract has been awarded but a training schedule has not been established.

2. **Consultant's Findings:** *The Adopted County Budget is not in balance, financing sources and financing revenues are not equal. Government Code Section 29009 states that "In the recommended, adopted, and final budgets the funding sources shall equal the financing uses."*

CG Recommendation: *If the State Controller's prescribed budget forms are used, then this information would be found on Schedule 1. If the County seeks alternative schedules as discussed above, then this information should be included in the County's proposed alternative schedules.*

CAO Staff Follow-up Response: *As stated earlier, the county is working with a contractor to create the State Controller's Office required budget schedules, which will demonstrate the county's balanced budget. The State Controller's Schedule 1 was included as an attachment with the agenda item to adopt the fiscal year (FY) 2018-19 County budget.*

Grand Jury Discussion: There are many County programs where the tracking of the funding sources and uses are not being adequately documented. The Auditor-Controller (AC) has been working with the County Administrative Office (CAO) on this issue. This is a significant challenge due to the large number of programs needing to be tracked. Continued diligence,

cooperation and teamwork between the AC and the CAO are necessary to ensure accurate and efficient tracking of funding sources and revenues. It is unlikely that this problem will be remedied by the end of the 2018-2019 fiscal year.

3. Consultant's Findings: *Transfers in and transfers out, both operational and intrafund are not in balance in the Adopted County Budget.*

CG Recommendation: *The CAO verify that transfers in and out and intrafund transfers in and out are all in balance during their preparation of the County budget. It is more important that the overall County budget be in balance than transfers in and out. If transfers in or out are not in balance then they can be fixed by a simple budget change during the fiscal year.*

CAO Staff Follow-up Response: *The Auditor-Controller has created new accounts to better segregate and track transfers in and out. The CAO and Auditor-Controller will work together to make sure that transfers in and out are balanced in the budget and in journal entries prepared by departments.*

Grand Jury Discussion: The following discussion requires the understanding of the definitions of Intrafund transfers and Inter-Fund accounts:

Intrafund Transfers represent expenditure reimbursements derived from charges to other departments within the same fund only. Inter-Fund accounts can accept a charge from another department in a different fund.

We learned the Auditor-Controller's office suggests "the Intrafund transfers are really cost reimbursements that shouldn't even be done...and is a made up term," and that "Inter-Fund is revenue and expenditures." Intrafund has been used within the County to describe transactions being entered into a single fund, when in actuality there should be multiple funds used to correctly reflect what is happening. The current Auditor-Controller has met with department heads and has attempted to provide training to assist in the input of correct information on operational and inter-fund transfers in the preparation of the adopted budget. This is a daunting challenge because of the large number of object code listings that need to be changed; object code listings are types of expenditures such as travel, training, and office supplies. Departments have also been using these codes for years for billing purposes and the transition can be difficult. Accomplishing this change will require mapping and changing of the whole financial coding system. It will also require the willingness and cooperation of department heads and staff to receive the proper training to actually "do things the correct and legal way" according to several interviewees.

4. Consultant's Findings: *There is a statement that the then Auditor-Controller ... "doesn't even attend budget meetings." If neither the Auditor nor a designated deputy attend the budget meetings; then their absence from the budget meeting violates the County Budget Act.*

CG Recommendation: *The Auditor-Controller comply with the Government Code and either personally attend the budget hearings or designate a deputy to fulfill the Auditor-Controller responsibilities.*

CAO Staff Follow-up Response: *The interim Auditor-Controller and the Assistant Auditor-Controller attended budget related public hearings and/or departmental items for FY 2018-19. The Auditor-Controller will continue to comply with the County Budget Act by attending budget meetings.*

Grand Jury Discussion: The newly elected Auditor-Controller has been attending all budget meetings since January 7, 2019, after she assumed the duties of the Auditor-Controller position.

5. Consultant's Findings: *There is a statement that "large sums of money are held in trust funds that aren't documented in the budget." Governmental trust funds are currently not required to be budgeted by the County, but expenses are being paid directly from governmental trust funds without Board of Supervisor authorized appropriations.*

CG Recommendation: *The County reclassify the County money held in trust funds to special revenue funds or permanent funds and budget for them in those funds.*

CAO Staff Follow-up Response: *The Auditor-Controller is working with the CAO to reduce the number of trust funds and/or reclassify them if appropriate. The Auditor-Controller has implemented measures to make sure expenses are not made directly from governmental trust funds. Expenditures are included in budgeted funds and transfers into operating accounts are approved by the Board.*

Grand Jury Discussion: Progress was made in identifying and reclassifying trust funds so there is more transparency and accountability. However, there is still a great deal of work that remains to be done, including reaching agreement on potential reduction and reclassification of the trust funds by all County departments. This reclassification is vital in order to have funds properly budgeted and reflected in financial statements.

6. Consultant's Findings: *The County does not have a year-end process established to guarantee that all GAAP entries are made for financial reporting in preparation for the external auditor. In fact, there is no established practice or use of ONESolution or another software reporting program to prepare the County's Basic Financial Statements. Instead, the County's external auditor is booking the year end GAAP entries in their software based on management's guidance and producing the basic financial statements.*

CG Recommendation: *An Accountant be trained as well as the Assistant Auditor-Controller and support staff to perform these functions. It is clear from earlier external auditor reports that this financial reporting function has been neglected. It cannot be determined if this is due to understaffing or loss of institutional knowledge.*

CAO Staff Follow-up Response: *The county has been contracting with external auditors to prepare the county's basic financial statements and adjusting year-end entries for at least the last 30 years. The Auditor-Controller is working with the external auditors to develop a year-end process and to make sure that all required GAAP entries are posted to the county financial system. The current county software system ONESolution should be capable of producing basic financial statements with some modifications to the account structure and establishment of journal entries to generate required year - end GAAP entries. It should be noted that adjustments to the account structure will require an additional financial investment into ONESolution.*

Grand Jury Discussion: Creating a year-end reporting process and implementing a software program with which to prepare the County's basic financial statements is necessary. During our investigation we found there continues to be a lack of cooperation among the various departments. This is due to serious understaffing in the Auditor-Controller office, as well as a lack of institutional knowledge in the Auditor-Controller office, the County Administrative Office, and in other departments. To solve these two issues, lack of staff and lack of institutional knowledge, will require commitment and cooperation from many County departments, such as the Auditor-Controller, County Administrative Office, Information Technologies, and others. Communication, as well as extensive training, will be necessary with the departments to achieve this goal.

7. Consultant's CliffordLawsonAllen (CLA) Findings: *Currently, the County records accounts receivable and taxes receivable and due from other governments, within the same receivable account in its general ledger. However, the County's recently updated its chart of accounts to include separate accounts for the various types of receivables.*

Consultant's (CLA) Recommendation: *We recommend the County utilize its chart of accounts to account for the various receivables and payable types, including accounts receivable, loans receivable, interfund advances (and payables) and amounts due from other governments. Year-end closing procedures should be modified to capture receivable balances into each of these accounts according to their nature.*

CAO Staff Follow-up Response: No written response was found by this Civil Grand Jury.

Grand Jury Discussion: There has been a concerted effort by the County Administrative Office and the Auditor-Controller Office to review the existing chart of accounts and determine what changes are needed to provide adequate management information for both budget and financial reporting. However, there are a number of configurations that have to be made to the ONESolution software that have not been implemented. In reviewing the CliftonLarsonAllen audit report for the year ending June 30, 2018, it appears this recommendation is being made again.

8. Consultant's Findings: *The County has not adopted a formal capital asset policy (Management Report finding (2010-2017)). CLA states The County has a significant investment in capital assets, such as land, buildings, roads and equipment. Adopting a policy will help ensure that the County's capital assets are acquired, safeguarded, controlled, disposed of and accounted for in accordance with state and federal regulations, audit requirements and generally accepted accounting principles.*

Without a written capitalization policy, inconsistencies and misunderstandings regarding proper policy capitalization thresholds and estimated useful asset lives are likely to occur. In addition, misstatements of net capital assets as well as a lack of comparability between years can result when policies and procedures regarding capital assets are unclear.

CG Recommendation: *I recommend that the CAO and Auditor-Controller work together to establish policies and procedures for the County regarding capital assets.*

CLA Recommendation: *The CAO and Auditor-Controller work together to adopt a comprehensive capitalization policy which includes all required capital asset accounting elements.*

CAO Staff Follow-up Response: *The Interim-Auditor-Controller is in the process of preparing a formal Capital Asset Policy and anticipates this will be before the Board for adoption by Dec. 18, 2018.*

Grand Jury Discussion: We learned that this policy was adopted in December 2018 but has not yet been implemented as of May 2019.

9. Consultant's Findings: *The use of the miscellaneous revenue account should be used to record revenues that fall outside of the other revenue categories, such as intergovernmental revenues and charges for services, and that are considered to be infrequent in nature.*

The County's use of the miscellaneous trust fund revenue account (account 808000) includes various types of revenue, including intergovernmental revenues and revenue generated from charges for services. The County had recorded in excess of \$9 million to the miscellaneous trust fund revenue account 808000.

When revenues are improperly classified as miscellaneous revenues the true condition of the fund may be misleading. The level of detail for classifying transactions should be sufficiently categorized so as to be meaningful to management in making decisions.

CLA Recommendation: *The County consider restricting the use of the miscellaneous revenue account for revenue sources that cannot be categorized under the existing revenue types including charges for services, fines, intergovernmental revenues, and licenses and permits.*

CAO Staff Follow-up Response: No written response was found to the CLA Recommendations by the Civil Grand Jury.

Grand Jury Discussion: We learned this issue is being addressed again in this year's CLA report. We also learned there is still \$9,828,373 in this trust account as of February 2019. This trust fund is being monitored by the Auditor-Controller's staff at this time. The Auditor-Controller's staff is working with County departments to eliminate this trust fund as it does not accurately reflect the types of revenue the County is currently receiving.

10. **Consultant's Findings:** *The County's chart of accounts should be detailed enough as to provide adequate management information, (Management Report Finding, 2010-2017). During the CLA review it was noted that the County recorded its annual net change in the cash with fiscal agent account balance to a single expenditure account.*

The County relies on various spreadsheets to track certain accounts at a more detailed level. For example, the County maintains a spreadsheet to track the activity of the debt service fund, including interest earnings and debt service payments.

CG Recommendation: *The CAO and Auditor-Controller Offices work jointly to review the existing chart of accounts and determine what changes are needed to provide adequate management information for both budget and financial reporting.*

CLA Recommendation: *The County expands its chart of accounts in certain funds where applicable to be used for significant accounts, such as major sources of revenues and expenditures. In the debt service fund, for example, the County should report the change in the cash with fiscal agent account as adjustments to debt service principal and interest expenditures and interest earnings rather than as a net change to trust fund expenditures.*

CAO Staff Follow-up Response: *The chart of accounts is being reviewed and updated to be more consistent with the State Controller's Office Accounting Standards and Procedures for Counties. As mentioned above, adjustments and/or updates to the account structure will require an additional financial investment into ONESolution.*

Grand Jury Discussion: Not only was this a recommendation from the three consultants in 2018, it has been a finding with the same recommendation, from various consultants, for the last 10 years. Humboldt County had been putting itself at risk of a State audit over this particular issue. With the newly elected Auditor-Controller taking office in January 2019, this particular finding and recommendation has been immediately addressed. It is on schedule to be completed by July 1, 2019. In order to properly modify the Chart of Accounts to be compliant with the State Controller's Office, the County's Auditor-Controller has relied for the most part on her own skills and experience for the correct reorganization of budget units and object codes. While upgrades to the ONESolution software were made available, it appears sufficient training was not. The Chart of Accounts should now reconcile at the end of each year and the County will now be compliant with the State Controller's Office on this issue.

11. **Consultant's Findings:** *The Governmental Trust Funds need to be reviewed for compliance with GASB [Government Accounting Standards Board] Statement No. 34, which should have been implemented in 2001-02. Amounts formally held in trust but used to support the County's own programs should be reported as funds within the County's reporting entity so as to ensure all economic resources that can be used by the County are reported in their financial statements. Activity in these accounts is required to be included in the County's reporting entity, either as additional funds or transactions in existing county funds.*

By excluding transaction activity in these funds, balances for revenues and expenses in the County's own financial reports (including budgetary reports) are not complete. There is the potential to double-report revenues and expenditures when resources are transferred into operating funds. Using multiple funds within the accounting system to control the flow of revenues increases the potential for reporting revenues and expenditures twice.

As the County does not budget for any activity occurring in these governmental trust funds, any deviations from the adopted budget are not apparent until well after the end of the fiscal year and thus cannot be addressed when they occur.

CG Recommendation: *The CAO and the Auditor-Controller work together to determine which trust funds are required and how to reclassify them in the County fund structure.*

CLA Recommendation: *The County analyze each of its governmental trust funds to determine if there is a particular need to account for resources separately from the primary operating funds of the County. The County should implement controls to minimize the double reporting of revenues and expenditures when utilizing these trust funds for controlling the flow of resources.*

CAO Staff Follow-up Response: *The chart of accounts is being reviewed and updated to be more consistent with the State Controller's Office Accounting Standards and Procedures for Counties. As mentioned above, adjustments and/or updates to the account structure will require an additional financial investment into ONESolution.*

Grand Jury Discussion: While the Auditor-Controller has had some success in shutting down and minimizing these trust funds, there is still much work to be done. The "way it's always been done" is a hard habit to break, even if that habit has not been correct or legal in accordance with State laws and guidelines. The fact remains that the longer it takes departments to reconcile and reclassify these trust funds, the longer the County's budget is inaccurate. This increases the risk of a possible State audit and being classified as a high-risk county. A high-risk designation would place Humboldt County at a disadvantage when applying for State grants and loans.

12. **Consultant's Findings:** *There are no Auditor-Controller policies and procedures for county departments to follow.*

CG Recommendation: *The Auditor-Controller make contact with other Auditor-Controllers to determine what procedures are issued in those counties and determine which procedures would be helpful in the County of Humboldt. County departments*

should be involved in the creation and/or review of the proposed procedures before they are implemented to afford them the opportunity of pointing out any difficulties with implementation. This would allow any exceptions to be issued with the procedure.

CPS HR recommendation: *Recommend formal recognition of the cross-departmental working group for improvement of the Accounts Payable Process by the Board of Supervisors, and that it be formally chartered and supported by a facilitator. We would further recommend that the effort follow the well-known practices of Continuous Quality Improvement, and that the team be asked to periodically report its results to the High Performance 21 Group commissioned by the County Executive.*

CAO Staff Follow-up Response: *The Auditor-Controller is currently reviewing existing county policies and procedures and other county accounting policies and procedures to determine what needs to be updated and/or developed. The CAO and Auditor-Controller will be creating an Accounting Services Improvement Working Group, comprised of county staff, that will help create and review proposed accounting policies and procedures.*

Grand Jury Discussion: Progress has been made in reviewing and updating forms and procedures used by departments. The implementation of Auditor-Controller policies and procedures by County departments is incomplete; interviewees cited resistance within departments. The cross-departmental working group process as recommended by CPS HR is not functioning as envisioned by the consultants.

13. **Consultant's Findings:** *The procedures and methodologies used to calculate direct billings of internal service (cost center) funds must be approved by the State Controller's Office. This is to be done during review of the County's cost plans as specified in Section 2230 of the SCO's Handbook of Cost Plan Procedures for California Counties.*

CG Recommendation: *The CAO and the Auditor-Controller work together to determine if the direct billing procedures and methodologies used by the County are compliant with the guidance included in SCO's Handbook of Cost Plan Procedures for California Counties.*

CAO Staff Follow-up Response: *The CAO and Auditor-Controller have reviewed the direct billing procedures and methodologies and they are compliant. The Internal Service Fund (ISF) narratives, billing rate methodologies and accounting for over/under costs were reviewed and updated during the FY 2018-19 cost plan development. The CAO and Auditor-Controller will continue to work together to ensure proper controls are in place for direct billing.*

Grand Jury Discussion: The County contracts with MGT Consulting Group to prepare the Cost Allocation Plan. The County Auditor-Controller staff gathers the necessary information from all of the cost center departments and inputs the information into Excel files to be delivered to MGT for preparation.

14. **Consultant's Findings:** *If the County Auditor-Controller was to prepare the Cost Plan it would require the purchase of a software program, like MAXCAP, or development of an internal processing mechanism, which would require a project team with IT. In addition, County Auditor-Controller staff would need further training regarding how to use the software and prepare/compile the Cost Plan.*

CG Recommendation: *A joint Cost Plan training with the State Controller's Office, the cognizant agency for County Cost Plan review for California. During that training, the State Controller's Office would present the requirements of the program by using their Handbook of Cost Plan Procedures for California Counties. The balance of the training would be discussing the process of gathering data and what departments need to do to provide that information, such as time studies and dividing the cost center into categories with determining a reasonable and defensible allocation methodology.*

CAO Staff Follow-up Response: *The Auditor-Controller and CAO both reached out to the State Controller's Office and no training is currently available on the Cost Plan. The State is working on developing a training video. The interim Auditor-Controller is working with staff to train them on what documentation is required for the Cost Plan and how to gather and process that information.*

Grand Jury Discussion: MAXCAP is a sophisticated computerized cost allocation system built specifically by MAXIMUS for government and is used by many states for this purpose. It is used to enhance the ability to analyze multiple scenarios and provide justifications. We learned that the Humboldt County Auditor-Controller has inquired of other counties about their Cost Allocation Plans and how they are written and implemented. One has been prepared for Humboldt County. Unfortunately, we also discovered that an adequate software program such as the recommended MAXCAP has not been utilized to assist this process. It was claimed by some interviewees that the Cost Allocation Plan for Humboldt County is currently not accurate and not applied correctly by the County Administrative Office. This Cost Allocation Plan is currently prepared annually by an outside consultant for Humboldt County. The Cost Allocation Plan is public record on the State website.

15. **Consultant's Findings:** *Cash handling procedures are usually created by the County Auditor-Controller with assistance from the County Treasurer.*

CG Recommendation: *The Auditor-Controller make contact with other Auditor-Controller's to determine what procedures are issued in those counties and determine which procedures would be helpful in the County of Humboldt. County departments should be involved in the creation and/or review of the proposed procedures before they are implemented to afford them the opportunity of pointing out any difficulties with implementation. This would allow any exceptions to be issued with the procedure.*

CAO Staff Follow-up Response: *The Auditor-Controller has collected sample policies from other counties and is working on a draft policy. The Accounting Services Improvement Working Group can assist with finalization of this policy.*

Grand Jury Discussion: There are currently no written cash handling procedures for the County. We learned of a difficult relationship between the County Treasurer and the previous Auditor-Controller that seemed to have hindered this process. A current process of reconciliation of cash handling procedures is being developed by the current Auditor-Controller and the Treasurer. Several interviewees expressed concern that the risk for fraud and theft is significant for the County.

16. **Consultant's Findings:** *Government Code Section 26905 - states that not later than the last day of each month, the auditor shall reconcile the cash and investment accounts as stated on the auditor's books with the cash and investment accounts as stated on the treasurer's books as of the close of business of the preceding month to determine the books of the treasurer and the books of the auditor are in agreement.*

CG Recommendation: *The Auditor-Controller bring the reconciliations current.*

CAO Staff Follow-up Response: *Staff has been assigned this task and trained and reconciliations of Treasurer's cash are current.*

Grand Jury Discussion: We learned that the Auditor's books and the Treasurer's books are not being reconciled at the end of each month as required by Government Code. The implication to the County of this not being done is that the cash and investment reconciliations will be out of balance, therefore not reflecting an accurate representation to the public. This also leaves room for fraud to occur.

The recommendation in the CliftonLarsonAllen audit report for the year ending June 30, 2018 does not appear consistent with the CAO's previous responses. CLA recommends the Auditor-Controller's staff reconcile the total cash and investment 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.

17. **Consultant's Findings:** *It is important to provide training to ACO staff to guarantee property tax responsibilities are performed in a timely and accurate manner.*

CG Recommendation: *Tax staff be allowed to attend the quarterly property tax manager's meetings to stay current on property tax changes and other forms of property tax training also be made available to tax staff, such as the Property Tax Manual,*

Megabyte training, Megabyte user group meetings (including the annual meeting). However, the best type of property tax training is one-on-one training on the job. So it is important to share the property tax institutional knowledge with at least two staff members and a manager to protect the County from losing such knowledge. In the alternative, hands on training with a similar County using Megabyte would be helpful. Unfortunately, not all counties have made the same elections and therefore, property taxes may calculate differently county to county.

CAO Staff Follow-up Response: *Auditor-Controller staff have been allowed and will continue to be allowed to attend property tax manager's meetings, Megabyte meetings and other property tax training. An additional accountant is being trained on property tax duties and there has been some cross training of other Auditor-Controller staff. The Auditor-Controller will continue to train current and additional staff as much as time and workload will allow.*

Grand Jury Discussion: During our investigation we learned that the Auditor-Controller staff has been receiving ongoing training, has access to the Property Tax Manual, and is fully involved with all property tax manager meetings.

18. **Consultant's Findings:** *General Training - Adequately trained staff is vital in operating an effective and efficient Auditor-Controller's Office. Training, in general, is lacking. At the time of the study by the consultant there was no internal training on ONESolution or other software being used by the County. The County should hire trainers, or increase the capacity of Information Technology to provide training classes for all County employees, especially ONESolution.*

CG Recommendation: *The County make a commitment to invest in the Auditor-Controller Staff and County staff through training, both internally and externally.*

CAO Staff Follow-up Response: *The FY 2018-19 Auditor-Controller budget has funding allocated for training. The interim Auditor-Controller and Assistant Auditor-Controller are working with staff to identify and schedule appropriate training. The Auditor's office will work with the CAO on providing ongoing internal training.*

Grand Jury Discussion: Training is planned for County staff on ONESolution, the accounting software. A contractor will conduct the training onsite. That training schedule has not yet been established.

19. **Consultant's Findings:** *Government Code Section 26883 - The Board of Supervisors has the power to require the County Auditor-Controller to audit the accounts and records of any department, office, board of institution under its control and any district funds kept in the County Treasury.*

CG Recommendation: *Upon the completion of the Cooperative Personnel Services Staffing Review that the CAO revisit the Auditor-Controller's budget to guarantee that*

sufficient appropriations are provided to the Auditor-Controller to perform the duties of the Controller.

CAO Staff Follow-up Response: *At this time the Board of Supervisors has not requested or required that the Auditor-Controller audit the accounts and records of any departments. It is anticipated that if a request of this type was made by the Board sufficient funding would be provided.*

Grand Jury Discussion: The Auditor-Controller's staff needs to have the necessary resources allocated in order to perform auditing functions. The Civil Grand Jury learned from several interviews that this office is severely understaffed.

20. **Consultant's Findings:** *Government Code Section 26909 - states the County Auditor-Controller shall make or contract with a certified public accountant (CPA) or public accountant (PA) to make an annual audit of the accounts and records of every special district within the county for which an audit by a CPA or PA is not otherwise provided.*

CG Recommendation: *The Auditor-Controller assign a staff member to establish the process for tracking and enforcing this requirement.*

CAO Staff Follow-up Response: *Auditor staff is currently working on a system to track and enforce this regulation. The Auditor-Controller is also working with special districts on alternative audit options allowed by Government Code such as less frequent audits, financial reviews and financial compilations.*

Grand Jury Discussion: Government Code Section 26909 is clear that this process must be followed to account for all funds in the special districts such as fire and water districts. Less frequent audits are not an option until an operative system to track and enforce this regulation is in place.

21. **Consultant's Findings:** *Government Code Section 26920 — states that the county auditor shall perform or cause to be performed, at least once each quarter, a review of the treasurer's statement of assets in the county treasury. At least annually, the county auditor, shall perform or cause to be performed an audit of the assets in the county treasury and express an opinion whether the treasurer's statement of assets is presented fairly and in accordance with generally accepted accounting principles. This annual audit replaces one of the earlier mentioned quarterly reviews. I recommend that the Auditor-Controller assign a staff member to establish the process for performing this requirement.*

CG Recommendation: *The Auditor-Controller assign a staff member to establish the process for performing this requirement.*

CAO Staff Follow-up Response: *The interim Auditor-Controller has assigned a staff member this task.*

Grand Jury Discussion: It is fundamental that the County Treasurer's statement of assets in the County treasury be audited on a regular basis. According to the Auditor-Controller's Office assigned this task, the work is not being performed due to a lack of staffing. In contrast, staff in the County Administrative Office claims that staff have been assigned to perform this work. There is an apparent lack of coordination and communication between County offices. This is of concern to the Civil Grand Jury as it has the potential to affect operational capability. Failure to perform this task could result in a lack of accountability, and errors, in the County budget.

CLA Audit Report for the Year Ending June 30, 2018

After completing this review of the Consultant Findings and Recommendations as well as the County Administrative Office responses to those, this Civil Grand Jury reviewed the upcoming CLA report for the year ending June 30, 2018. We made note of one of the findings and recommendations that we believe was substantiated by our investigation.

CLA Findings – Payroll Controls and Segregation of Duties: *Subsequent to the fiscal year, the County moved the payroll department from the auditor-controller's office to human resources. Upon discussion with the payroll department, internal controls have not changed, and the payroll department provides prelist reports to all individual departments, including the Auditor-Controller's Office, for review prior to processing payroll each period. However, the transfer of the payroll department to human resources could present a greater risk of fraud due to the lack of segregation of duties since the human resources department now has the capability to add new employees, determine salary and wage rates, adjust salary and wage rates in the system, and process payroll.*

CLA Recommendations: *The auditor-controller's office work closely with the payroll department to ensure controls have been established to address any segregation of duties, issues and increased fraud risk. For example, the payroll systems master file change log, showing all changes made to the payroll information, should be reviewed by management outside the payroll department to ensure it reflects accurate and complete information. The auditor-controller's office should also analyze payroll registers obtained from the payroll department to ensure they have sufficient information for monitoring payroll disbursements each pay period.*

Grand Jury Discussion: The Human Resources Payroll Department is not working adequately with the Auditor-Controller's Office to monitor and audit the payroll to ensure controls have been established to address any segregation of duties and increased fraud risk. The Auditor-Controller's Office lacks the data needed to analyze payroll registers obtained from the Payroll Department and to ensure they have sufficient information for monitoring payroll disbursements each pay period.

FINDINGS

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.

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.

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

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

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

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

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

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.

F9. The ONESolution software is complex and requires extensive training in the involved departments. This training would address several of the shortcomings of the County's budgeting and required accounting functions.

F10. At the time of this report, there is a lack of software training provided by ONESolution contractors and inadequate communication among County departments regarding responsibility for that training.

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

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

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

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.

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.

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.

RECOMMENDATIONS

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. (F12, F15)

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. (F2)

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. (F14, F16)

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. (F1, F13, F14, F16)

R5. The Humboldt County Civil Grand Jury recommends the Auditor-Controller's Office review the payroll systems 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. (F13, F14, F16)

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. (F13, F14, F16)

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. (F3, F4, F13, F14)

R8. The Humboldt County Civil Grand Jury recommends the Board of Supervisors approve funding and direct the County Administrative Office to hire an accountant in the County

Administrative Office to ensure compliance with basic accounting principles as outlined by the State. This should be completed by October 1, 2019. (F13, F14, F16)

R9. The Humboldt County Civil Grand Jury recommends that the County Administrative Office participate in Cost Allocation Plan training conducted by the State so the Cost Allocation Plan is properly implemented. This should be completed by October 1, 2019. (F1, F13, F14, F16)

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. (F1, F3, F4, F8, F14, F15, F16)

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. (F1, F4, F7, F8, F13, F16)

R12. The Humboldt County Civil Grand Jury recommends that outside Information Technology training consultants be retained on a regularly scheduled basis to provide ongoing accounting software training to all appropriate department staff. A regular schedule should be in place by October 1, 2019. (F1, F2, F3, F4, F8, F9, F10, F12, F13)

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. (F1, F2, F3, F4, F5, F6, F7, F8, F9, F10, F12, F13)

R14. The Humboldt County Civil Grand Jury recommends 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. (F1, F3, F4, F5, F6, F7, F8, F12)

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. (F1, F4, F5, F6, F8, F14, F16)

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. (F11)

REQUEST FOR RESPONSES

Pursuant to Penal Code section 933.05, the Grand Jury requests responses as follows:

- **Humboldt County Auditor-Controller: (F1, F2, F3, F4, F5, F6, F7, F8, F11, F12, F13, F14, F15, F16,) (R1, R2, R3, R4, R5, R6, R7, R10, R11, R13, R14, R15, R16)**

- **Humboldt County County Administrative Officer: (F1, F2, F3, F4, F5, F6, F7, F8, F9, F10, F11, F12, F13, F14, F15, F16) (R1, R2, R7, R8, R9, R11, R12, R13, R14, R15, R16)**
- **Humboldt County Treasurer-Tax Collector: (F1, F2, F3, F4, F5, F6, F7, F8, F11, F15, F16) (R10, R11, R15)**
- **Humboldt County Department of Health and Human Services: (F1, F2, F3, F4, F5, F6, F7, F8, F9, F10, F11, F13, F14, F16) (R2, R11, R15)**
- **Humboldt County Department of Public Works: (F1, F2, F3, F4, F5, F6, F7, F8, F9, F13, F14, F17) (R2, R11, R15)**
- **Humboldt County Board of Supervisors: (F1, F2, F4, F13, F14, F15, F16, F17) (R1, R2, R3, R4, R5, R6, R7, R8, R11, R12, R13, R14, R15, R16)**

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