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Management
County of Humboldt
Eureka, California

In planning and performing our audit of the financial statements of County of Humboldt as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

However, during our audit we became aware of other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below. The County's single audit report dated June 6, 2019, contains our written communication of material weaknesses in the County's internal control. This letter does not affect our report on the financial statements nor our internal control communication contained in the single audit report dated June 6, 2019.

DISAGGREGATION OF RECEIVABLES

Condition

Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Disclosures*, requires components of significant receivables to be disclosed in the financial statements. Components of receivables include accounts receivable (due from citizens), taxes (property, sales taxes, transient occupancy) receivable, interest receivable, amounts due from other governments and notes receivable.

Currently, the County records accounts receivable, taxes receivable and due from other governments within the same receivable account within its general ledger. However, the County's recently updated its chart of accounts to include separate accounts for the various types of receivables.

Recommendation

We recommend the County utilize its chart of accounts to account for the various receivable 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.

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USE OF MISCELLANEOUS REVENUE ACCOUNT

Condition

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.

We noted that 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. During the audit, we noted that the County had recorded in excess of $8 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.

Recommendation

We recommend that the County consider restricting the use of its 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.

RECORDING DEBT SERVICE EXPENDITURES

Condition

The County's chart of accounts should be detailed enough as to provide adequate management information. For example, during our review of the County's debt service fund, we noted that the County recorded all of its debt service expenditures to account 7000, Trust Fund expenditures, instead of recording principal and interest expenditures separately as reflected in the County's financial statements.

Recommendation

We recommend the County record principal and interest expenditures separately instead of combining both expenditure types into one account. We further recommend the County reconcile its debt service expenditures to its debt amortization at least once a year to ensure debt payments are accurately recorded it its general ledger.

CASH RECONCILIATION BETWEEN AUDITOR-CONTROLLER'S OFFICE AND TREASURY

Condition

During our audit of cash and investments at June 30, we noted an unreconciled variance in the County's cash balance of $187,155. Upon further review, we noted the Auditor Controller's Office is not reconciling the total cash and investments in the general ledger with the Treasurer's daily cash report on a regular basis.

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.

PAYROLL CONTROLS AND SEGREGATION OF DUTIES

Condition

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, the County is currently updating its internal controls over payroll. The payroll department currently 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 errors and irregularities going undetected. While no discrepancies with regard to payroll were detected during our audit, the auditor-controller's office and human resources should continue to work together on updating internal controls.

Recommendation

We recommend the auditor-controller's office work closely with the payroll department to ensure controls have been established to address any potential 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. Another example is the auditor-controller's office could analyze payroll registers obtained from the payroll department to ensure they have sufficient information for monitoring payroll disbursements each pay period.

* * *

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, Board of Supervisors, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

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Roseville, California
June 6, 2019