



COUNTY OF HUMBOLDT

For the meeting of: 5/24/2022

File #: 22-666

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

SUBJECT:

Update from the County Administrative Office on Status of Outstanding Financial Reports and the Fiscal Year 2022-23 Proposed Budget

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive a report from the County Administrative Office (CAO) on outstanding financial reports and the Fiscal Year (FY) 2022-23 Proposed Budget; and
2. Provide staff direction to schedule adoption of the Final FY 2022-23 Budget for September 2022.

SOURCE OF FUNDING:

All County Funds

DISCUSSION:

As preparation continues for the FY 2022-23 budget, it is necessary to inform your Board on the status of conditions affecting the budget and its development, and receive direction. A little progress has been made since March 8, 2022, when staff last provided your Board a summary and update on the status of delinquent financial reports, namely that the FY 2021-22 Cost Allocation Plan (CAP) was submitted to the California State Controller's Office (SCO) on May 9, 2022. The CAP is a cost allocation system developed by the federal government to compile, identify and classify costs for all central service units. The purpose of the CAP is to enable departments to recover costs incurred in the administration of a grant, entitlement or any form of assistance from the federal or state government, or other agencies outside the county.

The submitted CAP must still be approved by the SCO before costs can be applied to prior FY 2021-22 quarterly reimbursement requests. Prior late posting of cost plan charges has resulted in unreimbursed funds. Your Board recently approved a one-time transfer of \$381,482 from the General Fund to the Department of Health and Human Services - Public Health to restore lost fund balance due to late postings of FY 2019-20 and FY 2020-21 Internal Service Fund (ISF) and CAP charges.

DHHS- Public Health staff report and agenda item:

<https://humboldt.legistar.com/LegislationDetail.aspx?ID=5544144&GUID=0C24F431-29DA-4C35-8944-CCE4BD6FA578>

Despite progress with the FY 2021-22 CAP, reporting delinquencies continue to place the county in the position of being ineligible for significant current state and federal funding and at risk of losing additional grant funds and reimbursements (see Financial Impact Section). The FY 2019-20 single audit remains incomplete and is now more than 228 days delinquent from the extended COVID-19 due date of Sep. 30, 2021, placing at least \$93.7 million at risk. The Auditor-Controller and the county are being sued by the Attorney General, on behalf of the State Controller, for failing to file the FY 2019-20 and FY 2020-21 Financial Transactions Reports, and the FY 2020-21 and FY 2021-22 adopted budgets.

FY 2022-23 Final Budget Adoption

The county continues to face difficulties balancing the FY 2022-23 Proposed Budget, because fund balance figures are unreliable. As a result, the CAO is recommending that the Board delay final adoption of the budget until late September. California Government Code §29088 requires that counties adopt final budgets on or before Oct. 2. The county's historical practice has been to adopt a final budget prior to June 30. However, the delay of a few months will allow for additional time to close or substantially complete the accounting for FY 2020-21. Additionally, completion of the audit adjustments for FY 2018-19 and FY 2019-20 along with posting of the majority of FY 2020-21 transactions would provide more reliable estimates of the county's current fund balances, allowing for more responsible decision-making processes to take place.

Up-to-date fund balances would provide your Board with timely and relevant information to make financial decisions regarding the FY 2022-23 Final Budget. Furthermore, it would provide required information for submitting the Final Adopted Budgets to the SCO. The lawsuit filed by the State Controller, Betty T. Yee, was in part because of the county's failure to provide beginning fund balance information on the mandatory budget schedules. Fund balance is the accumulation of revenues minus expenditures for all prior year's operations. It represents cumulative resources available for financing future county services.

Because fund balance is a cumulative financial measure, to be accurate it is dependent on year-end review and closing processes from prior years. With transactions and adjustments outstanding for several years, it is nearly impossible to provide accurate estimates for current and prior year's fund balances. Thus, the CAO recommends delaying adoption of the Final FY 2022-23 Adopted Budget. Instead, the Board would be asked to consider approval of the Recommended FY 2022-23 budget at either the first or second meeting in June and delay the public hearings, Board directed budget adjustments, and final budget adoption until late September. As set forth on the next page, California Government Code requires that the final budget be adopted on or before Oct. 2.

Proposed Budget Adoption Schedule FY 2022-23			
Gov. Code Section	Budget Action Required	Required on or before Date	Recommended Date of Action
§29040	Departments must submit and designated Administrative Officer must receive budget request	06/10/22	04/11/22
§29061, §29062	Recommended Budget submitted to the Board	06/30/22	06/14/22
§29063 §29064(a)	Board adopts Recommended Budget	06/30/22	06/28/22
§29065	Make the Recommended Budget available to the general public	09/08/22	08/30/22
§2908Q(a)	Publish notice that Recommended Budget is available and not sooner than 10 days later conduct a public hearing	09/08/22	08/30/22
§2908Q(b)	Conduct public hearing on Recommended Budget	10/02/22	09/13/22
§29088	Board adopt Final Budget, after conducting public hearing	10/02/22	09/27/22
§29093	Submit Adopted Budget to the State Controller	12/01/22	11/28/22
GFOA - Budget Award	Submit Adopted Budget Document to the GFOA Budget Award Program 90 days after adoption	12/31/22	12/19/22

Bank Reconciliations, Single Audit Report and Financial Statements FY 2019-20

On April 26, 2022, your Board directed the CAO to work with Macias, Gini & O’Connell, LLP (MGO) to transition the bank reconciliation project to the CAO’s office. Working with the Treasurer-Tax Collector, as of the writing of this staff report, staff has tied out bank deposits to daily cash receipts for July, August, and September of 2019. MGO staff were unable to reconcile receipts to the bank statement for a single month and appear to have been provided limited or no information on daily deposit logs kept by the Treasurer-Tax Collector.

MGO also reported over \$28 million (approximately 3,650 checks) in disbursements from the Auditor-Controller’s Office account (ending in 5645) that were not reflected in the check registers provided to them. As a result, MGO spent significant time trying to identify the missing disbursements and reconcile the accounts. The current contract dated 12-8-2020 and amended on 5-11-2021 has reached the not to exceed amount of \$750,000. To date, \$254,576 has been billed to cash & banking analysis and reconciliations. A requested copy of the check register report provided to MGO confirms that the check numbers and data identified by MGO are missing from the data provided to them.

Initial sample testing of the “missing” disbursement checks by CAO and Treasurer-Tax Collector staff confirmed that the transactions were in fact in Finance Enterprise and could be traced from the cancelled check to the invoice paid, the general ledger account where the transaction posted, back to three separate check registers generated in Finance Enterprise and to batch reports from the origination of the check. To verify that all the 3,650 checks are indeed posted to the county’s financial system, staff are tracking each individual check to the invoice, general ledger account and check register.

The bank reconciliation was one of just two outstanding items necessary for CliftonLarsonAllen (CLA) to complete and close out the FY 2019-20 Single Audit Report and to issue the Financial Statements for the same year. The other outstanding item is the compensated balances report, that measures accrued liabilities of compensated absences (such as vacation, holiday pay, sick leave, etc.). As the bank reconciliation project is a high priority and work continues, a verbal update of any additional progress will be provided as part of the staff report on May 24.

FINANCIAL IMPACT:

The delinquent reports have and will continue to place county revenues at risk. The county is currently ineligible to receive certain federal and state funding that it routinely received in prior years because of the delinquent FY 2019-20 Single Audit Report. Code of Federal Regulations (CFR) §200.339 sets forth remedies for noncompliance with the Single Audit requirement and is attached.

The county's Workforce program has already been placed on a cash hold and is now in the process of de-obligating the county awarded funds. The county has been notified that it is ineligible to receive funding from Caltrans for any new project due to the delinquent FY 2019-20 Single Audit Report. The county sought funding from U.S. Dept. of Agriculture in 2021 and was informed it was ineligible for a funding award because of the delinquent FY 2019-20 Single Audit Report. The Governor's Office of Emergency Services (CalOES) and the California Department of Housing and Community (HCD) continue to request copies of the FY 2019-20 Single Audit Report to confirm compliance with existing grant award agreements.

The Schedule of Expenditures and Federal Awards (SEFA) for June 30, 2020, details the \$93.7 million the county received in FY 2019-20 from federal sources (many state awards include federal pass-through funds and are included on the SEFA). Additional impacts and potential risks from the county's delinquent financial reports are discussed in detail in Attachment 2 - Delinquent Reports Summary.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by managing our resources to ensure sustainability of services.

OTHER AGENCY INVOLVEMENT:

California State Controller's Office (SCO)

All Districts in Humboldt County

All County Departments

Organizations who have contracted for services with the County, including First 5 Humboldt and Humboldt County Workforce Coalition

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion

ATTACHMENTS:

1. 2 CFR 200.339 Remedies for noncompliance

File #: 22-666

2. Delinquent Report Summary updated 5-16-2022

PREVIOUS ACTION/REFERRAL:

Board Order No.: H.1.

Meeting of: 3-8-2022

File No.: 22-163