



COUNTY OF HUMBOLDT

Legislation Details (With Text)

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Title: 1:30 p.m. - Audit Reports for Fiscal Year 2017-2018

Sponsors:

Indexes:

Code sections:

Attachments: 1. Staff Report, 2. 2018 Humboldt County Audit Report - Signed.pdf, 3. 2018 Humboldt County Single Audit - Signed.pdf, 4. 2018 Humboldt County Governance Letter -Signed.pdf, 5. 2018 Humboldt County Management Letter - Signed.pdf, 6. 19 Humboldt County Engagement Letter.pdf, 7. 19 Humboldt PFC Engagement Letter.pdf, 8. Corrective Action Plan.pdf, 9. Signed Engagement Letters.pdf

Date	Ver.	Action By	Action	Result
8/20/2019	1	Board of Supervisors	approved	Pass

To: Board of Supervisors

From: Auditor-Controller

Agenda Section: Time Certain Matter

SUBJECT:

Audit Reports for Fiscal Year 2017-2018

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive and file the audit reports prepared by CliftonLarsonAllen LLP, regarding the financial statements of the County of Humboldt for the fiscal year ended June 30, 2018;
2. Receive and file the Corrective Action Plan on behalf of the County of Humboldt as a response to the findings identified in the Single Audit report for the fiscal year ended June 30, 2018;
3. Approve and authorize the Chair of the Board, the Auditor-Controller, and the Aviation Director to execute the engagement letters regarding the provision of external audit services for fiscal year 2018-19.

SOURCE OF FUNDING:

General Fund

DISCUSSION:

Regarding Recommendations #1 and #2: CliftonLarsonAllen LLP has completed its audit of the

financial statements of the County of Humboldt for the year ended June 30, 2018, and has issued its reports dated June 6, 2019. Those reports include the “Financial Statements”, the “Single Audit and Passenger Facility Charge Report”, the “Governance Communication Letter”, and the “Management Report”. Copies of the “Financial Statements” and the “Single Audit and Passenger Facility Charge Report” have already been distributed to the appropriate state and federal agencies in compliance with the Federal Single Audit Act and the California (CA) State Controller’s Office mandates. The firm’s principal auditor, Rich Gonzalez, Certified Public Accountant (CPA), has been invited to attend this meeting to present these reports to your Board and answer any potential questions your Board may have of him. The Auditor-Controller will review these reports with your Board as well as the County’s Corrective Action Plan and will respond to any questions and provide additional information as requested by your Board. The financial statements and reports are provided as attachments to this agenda item and can also be viewed and downloaded on the County’s website at <http://humboldt.gov/Archive.aspx?AMID=42>

As demonstrated in the “Schedule of Findings and Questioned Costs” beginning on page 14 of the “Single Audit and Passenger Facility Charge Report”, the County of Humboldt is tasked with rectifying several long-held accounting practices in order to comply with Generally Accepted Accounting Principles (GAAP), to prevent misstatements of our financials, to ensure all significant account balances are reviewed and reconciled, to provide more accurate classifications of all accounts, to establish a system for tracking and reporting capital assets, to ensure subsequent receipts and disbursements are reported in the correct periods, and to comply with mandates of the Government Accounting Standards Board (GASB).

Specifically, the Office of the Auditor-Controller has taken steps to address the material weaknesses in internal control over financial reporting identified in the Single Audit report by beginning the process to restructure the county’s chart of accounts in a manner that adheres to the CA State Controller’s Office Accounting and Standards Procedures Manual. The process of restructuring the chart of accounts will include consolidating trust funds for inclusion in the county’s budget and for facilitated monitoring and reconciling, eliminating redundant and non-specific object codes, and converting object codes used for programs into sub budget units for increased transparency and ease of grant reporting and claiming. Following the structure of the State Controller will increase transparency of the county’s financials, provide consistency and uniformity to all county departments and agencies that hold funds in the county’s treasury, and will ensure our compliance with GAAP. Undertaking an update such as this requires dedicated staff to design, develop, implement, and maintain the updated information.

In addition to restructuring the county’s chart of accounts, the Office of the Auditor-Controller has designed and developed a new process to record the county’s Accounts Receivable (A/R) and Loans Receivable (L/R). Historically, the county has recorded its A/R and L/R in one sole account that was updated only once a year and included only the revenues received in the first 3 subsequent months of the fiscal year previously ended. This process resulted in understated receivables that did not reflect the actual assets of the county. Most recently, as demonstrated in finding 2018-005 on page 19 of the Single Audit, our external auditors found that the county had materially understated revenues and receivables by \$2,565,571. This amount was derived from only three subsequent receipts that were not recognized in the fiscal year under audit and would not include any other receivables owed to the

county but not reported. The new process of recording A/R and L/R as designed and developed by the Office of the Auditor-Controller will address and correct this discrepancy. We will be able to keep track of all debts owed to the county in real-time, thus improving the chances of collectability. This new process will also reflect favorably in the county's financial statements by increasing the county's net assets. Also, by implementing the new A/R and L/R services, the Office of the Auditor-Controller will be able to lift the burden of several fiscal staff across multiple departments who have had to rely on external spreadsheets to keep track of their respective receivables by providing them real-time monitoring in the same financial software used by all county departments. The Auditor-Controller and Auditor-Controller staff have already presented this new system to staff in the Sheriff department, the Planning & Building department, and the Department of Health & Human Services, and have received very positive feedback. In order to continue to provide this service at the levels requested by county departments and required by GAAP, there is an anticipated need for the allocation of an Accountant I/II to manage and maintain the A/R and L/R functions while providing a liaison of excellent customer service to all participating departments on an ongoing basis. Formal requests for additional staffing will be submitted to your Board in a subsequent meeting.

As you'll see in finding 2018-004 on page 18 of the Single Audit report, the county was made aware of its requirement to maintain capital asset records for all of its dependent special districts. This practice had not been identified as required or implemented in the Office of the Auditor-Controller department before. Because the county had not been maintaining capital asset records for the Fortuna Fire Protection District, it received an "Adverse opinion on Discretely Presented Component Unit" on its independent auditors' report. Earning an adverse opinion means that "the financial statements referred to above do not present fairly the financial position of the discretely presented component unit as of June 30, 2018, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America" (page 2 of independent auditors' report). The Auditor-Controller and Auditor-Controller staff met with the Fire Chief of the identified special district and have reached the agreement that immediate implementation of capital asset tracking for dependent special districts is necessary. Because of time constraints, it is possible that this will not be corrected in time for the audit of the county's financials for fiscal year 2018-19 but Auditor-Controller staff will still make an attempt to do so. In order to implement this required practice for all dependent special districts and maintain the tracking of capital assets for the county overall on an ongoing basis, there is an anticipated need to allocate a Senior Accountant-Auditor for the Office of the Auditor-Controller. A formal request for additional staffing will be submitted to your Board in a subsequent meeting.

Regarding Recommendation #3: Section 25250 of the California Government Code requires that the board of supervisors of each county within the State of California audit the financial accounts and records of all officers having responsibility for the care, management, collection, or disbursement of money belonging to the county or money received or disbursed under the authority of law. Pursuant to Section 25250, a board of supervisors may employ the services of an independent certified public accountant or licensed public accountant to perform an examination of the county's financial statements in accordance with generally accepted accounting standards.

Each year, the county contracts with a certified public accounting firm to conduct an audit of the county's finances and to prepare the associated financial statements, reports and schedules required by

federal agencies and the single audit. CliftonLarsonAllen LLP (CLA) performed the annual audit of the county's finances for fiscal year 2017-18. The principal auditors of CLA that county staff have historically worked with continue to be available to provide these accounting services.

Accordingly, staff recommends that the Board approve and authorize the Chair of the Board, the Auditor-Controller, and the Aviation Director to execute the engagement letters regarding the provision of external audit services for fiscal year 2018-19;

FINANCIAL IMPACT:

Receiving and filing the annual audit report and the corrective action plan would have no significant financial impact as the related costs of finalizing the audit have already been incurred and expended.

Approving the engagement letters with CliftonLarsonAllen LLP would incur an additional expenditure up to \$83,790. This cost includes an audit of the County's financial statements, the Single Audit, the Passenger Facility Charges (PFC) audit, and a potential \$5,000 for travel. \$81,500 of this cost has already been budgeted in the Board of Supervisors' budget unit 1100101 for fiscal year 2019-20 and if the final cost surpasses this amount, then your Board can choose to request a supplemental budget or an appropriation transfer from another already-budgeted account.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by fostering transparent, accessible, welcoming and user friendly services, providing community-appropriate levels of service, and enforcing laws and regulations to protect residents.

OTHER AGENCY INVOLVEMENT:

State Agencies: CA State Auditor, CA Department of Finance, CA State Controller's Office, CA Employment Development Department, and other state agencies.

Federal Agencies: Federal Aviation Administration, and the Office of Management and Budget.

County: All County departments and agencies who hold funds in the county's treasury.

All special districts governed by the Humboldt County Board of Supervisors: Fortuna Fire Protection District, Loleta Fire Protection District, Whitethorn Fire Protection District, Garberville Lighting District, Hydesville Lighting District, Loleta Lighting District, Rohnerville Lighting District, Weott Maintenance & Lighting District, Redcrest Street Lighting Maintenance District, Myers Flat Street Lighting Maintenance District, Pacific Manor Street Lighting Maintenance District, Humboldt County Flood Control District, Subzone 1-1, Janes Creek Storm Drain Maintenance District.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

2018 Humboldt County Audit Report - Signed

2018 Humboldt County Single Audit - Signed
2018 Humboldt County Governance Letter - Signed
2018 Humboldt County Management Letter - Signed
19 Humboldt County Engagement Letter
19 Humboldt PFC Engagement Letter

PREVIOUS ACTION/REFERRAL:

Board Order No.: N/A

Meeting of: N/A

File No.: N/A