



Office of the Auditor-Controller
COUNTY OF HUMBOLDT

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MEMORANDUM

To: County Supervisors

From: Karen Paz Domínguez, Auditor-Controller

Re: Item H-4 “Outstanding Financial Transactions” on 2/23/21 Agenda

Date: Monday, February 22, 2021

The purpose of this memorandum is to provide your Board with information about the status of the 2019/2020 fiscal year closing, interest apportionment, and cost allocation plan.

Regarding the fiscal year 2019-2020 closing, we announced the closing to all County departments on 2/11/2021 and have proceeded with that task. We have already completed the fund rollover process for special districts, schools’ districts, and several county funds. Because the fund rollover process can place a heavy burden on the financial system and can result in errors to concurrently-running jobs, we always schedule them for after-hours or off-hours. This can make it look like the books aren’t closed but I can assure you, they are. We save the General Fund as the last fund in the rollover process because of the size of its data; please note that the General Fund’s rollover is already scheduled.

The decision to close fiscal year 2019/2020 is up to the Auditor-Controller. It was evident to me that the County’s need to close outweighed my preference to fully and completely reconcile all of the funds in the Treasury. I determined that it would have taken much longer to receive the information needed to reconcile and so I made the difficult decision to close the year as is. Please note that the Auditor-Controller’s use of “Prior Period Adjustments” is common and perfectly appropriate. Also, please note that our auditors have prepared prior period adjustments for this County every year spanning back multiple years.

Regarding specific items identified by the CAO in the 2/19/2021 staff report:

1. Closing of FY 2019-20

- a. “Salary transfer from Communications to County Administrative Office” - \$48,743.00
 - This request was rejected by the A-C on 2/2/2021 due to not receiving substantiation to justify the transfer. We offered to post this as a prior period correction and clarified that substantiation would be needed to do so. To date, we have not received substantiation.
- b. “Salary transfer from ADA to County Administrative Office” - \$49,331.00
 - This request was lumped in the same journal entry with the request in the bullet point above and was rejected for the same reason on 2/2/2021. We offered to post this as a prior period correction and clarified that substantiation would be needed to do so. To date, we have not received substantiation.
- c. “Excess building permit fee revenues” - \$283,518.72
 - This request included a transfer out of the general fund and into a department’s trust fund. It was rejected due to timing and unclear substantiation. The department was able to subsequently justify the transaction but the year was already closed at that point. The good news is that this transfer is not legally-mandated and can easily be transacted as of 7/1/2020. This will not generate any findings.
- d. “COP transfers” (Certificates of Participation) - \$1,793,201.00

- This request was not processed due to conflicting information received from the CAO. The COP transfers represent debt that was never issued and unnecessary repayments between funds. It will take the A-C office considerable time to reconcile the activity that has been occurring within these COP transfers.
- e. "Payoff of Fund 3467 for 2016 Finance Plan" - \$388,220.36
 - Similar to the "COP transfers", this request was not processed due to conflicting information received from the CAO regarding debt that was never issued and unnecessary repayments between funds. It will take the A-C office considerable time to reconcile the activity that occurred within the Finance Plan accounting.
 - f. "Accruals for 4th quarter Measure Z EPD and KMUD allocations paid in FY 20-21"
 - The A-C Office does not have a record of receiving a journal entry request to process this transaction.
 - g. "PSPS restricted cash" - \$369,912.00
 - This transaction will take place during the fund rollovers as it exists within fund balance. This transaction was proposed by the A-C office to segregate earmarked funding within the General Fund and does not involve actual revenues or expenditures.
 - h. "Donation restricted cash" - \$2,677.00
 - This transaction will take place during the fund rollovers as it exists within fund balance. This transaction was proposed by the A-C office to segregate earmarked funding within the General Fund and does not involve actual revenues or expenditures.
 - i. "Grant reimbursements to be posted as accounts receivables" - \$354,389.00
 - All appropriate Accounts Receivable transactions that were submitted to the A-C office have been posted.
 - j. "FEMA reimbursements to be posted as accounts receivables" - \$188,353.00
 - All appropriate Accounts Receivable transactions that were submitted to the A-C Office have been posted.
 - k. "Court facilities payment belonging to FY 20-21" - \$44,318.25
 - I am unclear on the specifics of this item. The determination on when to recognize expenditures is within the Auditor-Controller's authority and is guided by GAAP and GASB. The A-C Office has made the decision to recognize expenditures in the correct period.
 - l. "Courthouse Café rent transfer" - \$2,000.00
 - Neither my staff nor I are aware of receiving this request.
 - m. "Interest due to the General Fund for FY 2018-19 3rd and 4th quarters" - \$788,598.71
 - All interest has been apportioned by the A-C office to the funds that earned the interest. This is not an outstanding item.
 - n. "ADA charges to IT" - \$15,131.00
 - All ADA charges were posted per the BOS's acceptance of responsibility for them.
 - o. "CARES Act expense transfers" - \$27,140.00
 - This is part of a series of requests to move transactions out of department's budget units and into a separate budget unit for CARES. The A-C office posted the majority of these requests after correcting the journal entry submissions. There is one outstanding request that was rejected due to including incorrect descriptions, incorrect dollar amounts, lump sum reimbursements (rather than 1:1), irrelevant transactions, and duplicate transactions.
 1. Please note that the A-C office provided the County a mechanism to track all CARES expenses by way of a job ledger code. The transactions are already tracked and these "expense transfers" were unnecessary and duplicative.
 - p. "CARES Act sick leave transfer" - \$1,434,362.12
 - This transaction has been posted.
 - q. "Health insurance error correction" - \$3,478,518.00
 - This transaction is in process as part of the fund rollover process. This is not an outstanding item. Please note, this transaction does not involve any actual revenues or expenditures.
 - r. "Prop 172 accruals" - \$757,390.00
 - All Prop 172 accruals have been posted.

- s. "DHHS Admin charges" - \$217,545.00
 - This transaction has been posted.
- t. "CWS CAST" - \$284,654.00
 - Honestly, neither my staff nor myself could figure out what this item is about.

Out of the \$10.81 million reported to you as outstanding, \$2.95 million has already been posted, \$3.85 million are in process to post as part of the fund rollover, \$283,519 is optional for posting (see c. above), and \$125,214 can be posted as prior period adjustments. \$3.41 million remains unclear as to whether it is outstanding, and \$181,668 does not tie to any of the line items and appears to be a math error.

2. Regarding Interest Apportionment:

All interest has been apportioned to the appropriate funds except for the last quarter of 19/20 (that interest is posted in the subsequent year.) The staff report references a government code but does not provide it.

3. Regarding the Cost Allocation Plan:

All relevant information has been provided to our cost plan consultants for the 20/21 cost plan. We anticipate that we will receive a finalized cost plan in the first week of March. The State Controller's Office has communicated to us that they will prioritize the review of our cost plan as soon as they receive it. Please note that the dollar figures provided to you in the CAO's staff report as potential losses are in my opinion, speculative.

Now that fiscal year 2019/2020 is closed, we have redirected our focus towards issuing all outstanding CARES grants, getting all fiscal year 2020/2021 activity caught up, and recruiting and onboarding new Auditor-Controller staff. We are pleased to report that we received feedback from several special districts and they are appreciative that the 19/20 fiscal year is closed and the interest apportionment is on the way. We look forward to continuing to improve our relationships with the special districts.

We will work with County departments on formalizing the County's understanding of the year-end process to make sure that the closing of 2020/2021 goes much more smoothly than 2019/2020. Our continued priority is to ensure that transactions are recorded correctly and in accordance with GAAP and GASP and we will continue to train and educate our department partners in the County on generally accepted accounting principles.

Thank you for your time and for the opportunity to share my perspective,

Karen Paz Domínguez
Auditor-Controller