



# COUNTY OF HUMBOLDT

For the meeting of: 12/14/2021

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File #: 21-1821

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**To:** Board of Supervisors

**From:** First 5

**Agenda Section:** Departmental

**SUBJECT:**

First 5 Humboldt Independent Audit Finding and MOU with County

**RECOMMENDATION(S):**

That the Board of Supervisors:

1. Accept the First 5 Humboldt audit.
2. Confirm the county responsibilities under the existing Memorandum of Understanding.
3. Direct county financial staff to fulfill the obligations under the First 5 Humboldt-County of Humboldt MOU in regard to the closing process and the accounting and oversight services.

**SOURCE OF FUNDING:**

Proposition 10 Tobacco Tax funding plus various grants

**DISCUSSION:**

On July 25, 2000, the Humboldt County Children and Families Commission, a local, independent government entity, also known as First 5 Humboldt, entered into a memorandum of understanding (MOU) with the County of Humboldt. Among other things, the MOU stipulates that the "County Auditor-Controller shall deposit all receipts and monies arising from the operation of the Commission into the Commission's account and shall make disbursements from the accounts on behalf of, and at the direction of, the Commission in such amounts and at such times as the same are required." Since the execution of the MOU the County Auditor-Controller has provided to the Commission accounting and payroll services including "warrant provision, processing and reconciliation; paying legitimate internal external claims from vendors and employees; maintaining payment records; processing and accounting for personal services contract determinations for federal tax withholding and contract payments; capital equipment inventory and depreciation; tax accounting and reporting, including issuance of 1099's and tax remittances; Internal Service Fund accounting and transaction processing; debt service payments; and revenue posting." It is the expectation of the Commission that these services be provided in a prompt and efficient manner, in accordance with best business practices.

On Dec. 2, 2021, Christy White, Inc., an independent auditor, completed the Commission's annual audit of Fiscal Year 2020-2021. The auditor found that, the "County of Humboldt Auditor Controller's

Office did not meet the expectations included in the Commission’s agreement for accounting and oversight services... Several audit adjustments were recorded in the financial statements to accurately report receivables and accrued liabilities as well as recognize revenue and expenditures in accordance with generally accepted accounting principles applicable to the Commission.” The cause noted was that the formal financial closing process was not followed as it has been followed in previous years.

It should be noted that First 5 Humboldt pays the county for charges accessed in relation to services covered under the MOU.

First 5 Humboldt experiences a steadily declining revenue due to decreased California tobacco sales and has come to rely on grants for well over half of its annual revenue. The current finding is egregious and has the potential to impact the Commission’s ability to secure grants to provide needed services to Humboldt’s children and families and accomplish its voter-approved mandate.

FINANCIAL IMPACT:

Potential termination of existing grants, potential loss of grant awards. If the Commission is forced to renegotiate or terminate its MOU with the County of Humboldt, there will be a loss of staff time available to serve children and families, resulting in a concomitant fiscal loss, as work will have to be redirected to establish new fiscal and accounting practices outside the county structure.

STRATEGIC FRAMEWORK:

This action supports your Board’s Strategic Framework by protecting vulnerable populations , managing our resources to ensure sustainability of services, facilitating the establishment of local revenue sources to address local needs, and seeking outside funding sources to meet Humboldt County needs.

OTHER AGENCY INVOLVEMENT:

First 5 Humboldt.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

The Board could take no action and allow the requirements of the MOU to continue to go unmet.

ATTACHMENTS:

1. Humboldt County Children and Families Commission Audit Report, June 30, 2021
2. MOU with Humboldt County Children and Families Commission

PREVIOUS ACTION/REFERRAL:

Board Order No.: C-4  
Meeting of: July 25, 2000  
File No.: N/A