

# **HUMBOLDT COUNTY**

Review Report

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

*July 1, 2019, through June 30, 2021*



**BETTY T. YEE**  
California State Controller

July 2022



**BETTY T. YEE**  
California State Controller

July 22, 2022

Cheryl Dillingham,  
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825 5<sup>th</sup> Street, Room 126  
Eureka, CA 95501

Elishia Hayes,  
County Administrative Officer  
Humboldt County  
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Eureka, CA 95501

Dear Ms. Dillingham and Ms. Hayes:

The State Controller's Office reviewed Humboldt County's internal controls over its annual financial reporting process to determine whether the county's inability to submit timely annual financial reports is due to a lack of internal controls. Our review was for the period of July 1, 2019, through June 30, 2021. We expanded our scope to include prior fiscal years and the current fiscal year when information obtained from county officials, independent auditors, and other audit reports merited further review.

Our review found internal control deficiencies that contributed to the county's inability to complete its annual financial reports promptly.

The county should develop a comprehensive plan to address the deficiencies. The plan should identify the tasks to be performed, as well as milestones and timelines for completion. The Board of Supervisors should require periodic updates at public meetings of the progress in implementing this plan. Furthermore, we request that the county provide the State Controller's Office with a progress update of its plan six months from the issuance date of the final report.

We would like to express our thanks to the county staff and management who were helpful throughout the review process.

If you have any questions, please contact Efren Loste, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226, or by email at [eloste@sco.ca.gov](mailto:eloste@sco.ca.gov).

Sincerely,

*Original signed by*

KIMBERLY TARVIN, CPA  
Chief, Division of Audits

KT/lis

Cheryl Dillingham,  
Interim Auditor-Controller  
Elishia Hayes,  
County Administrative Officer

-2-

July 22, 2022

cc: The Honorable Virginia Bass, Chair  
Humboldt County Board of Supervisors  
The Honorable Mike Wilson, Vice Chair  
Humboldt County Board of Supervisors  
The Honorable Rex Bohn, Member  
Humboldt County Board of Supervisors  
The Honorable Michelle Bushnell, Member  
Humboldt County Board of Supervisors  
The Honorable Steve Madrone, Member  
Humboldt County Board of Supervisors

# Contents

## Review Report

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Review Authority.....</b>	<b>3</b>
<b>Objective, Scope, and Methodology .....</b>	<b>3</b>
<b>Conclusion .....</b>	<b>4</b>
<b>Views of Responsible Officials and SCO Comments.....</b>	<b>4</b>
<b>Restricted Use .....</b>	<b>4</b>
<b>Findings and Recommendations.....</b>	<b>5</b>
<b>Attachment A—Humboldt County Auditor-Controller’s Office Response to Draft Review Report</b>	
<b>Attachment B—Humboldt County Administrative Officer’s Response to Draft Audit Report</b>	

# Review Report

## Summary

The State Controller’s Office (SCO) completed a review of Humboldt County’s internal controls over its annual financial reporting process for the period of July 1, 2019, through June 30, 2021 (fiscal year [FY] 2019-20 and FY 2020-21). We expanded our scope to include prior fiscal years and the current fiscal year when information obtained from county officials, independent auditors, and other audit reports merited further review.

We performed this review because in recent years the county has been unable to complete and/or file required reports to SCO in a timely manner.

Our review found internal control deficiencies that contributed to the county’s inability to complete its annual financial reports promptly, as described in the Findings and Recommendations section of this report.

## Background

### Humboldt County

Humboldt County is a general-law county established in 1853 by the state legislature, and is a political subdivision of the State of California. The county, with a population of 136,463 as of the 2020 census, is located on the far north coast of the state. Seven incorporated cities within Humboldt County, including the county seat of Eureka, provide services to their residents.

The county is governed by a five-member Board of Supervisors, which serves as the legislative and executive body of county government and many special districts. As the governing body of the county, the Board of Supervisors enacts legislation and determines policies for county departments and various special districts, adopts the annual budget, and establishes salaries.

The county’s organizational structure includes 20 separate departments, six of which are directed by officials elected by residents to serve a four-year term. These include the Assessor, the Auditor-Controller, the Clerk-Recorder, the District Attorney, the Sheriff, and the Treasurer-Tax Collector. The remaining officials and department heads, including the County Administrative Officer, are appointed by either the Board of Supervisors or other agencies as described in state law.

### Annual Financial Reports

In Humboldt County, the Auditor-Controller exercises general supervision over the accounting of all county organizations and administers the county’s major financial, payroll, and property tax apportionment systems; prescribes and exercises general supervision over the accounting forms and the method of keeping the accounts of all offices and institutions under the control of the Board of Supervisors, and for those entities that maintain their funds in the County Treasury, including special districts and school districts.

The county is required to complete and/or file annual financial reports to SCO and the federal government, including the Financial Transactions Report (FTR), the Single Audit Report (SAR), and the Annual Comprehensive Financial Report (ACFR).

In recent years, the county has been unable to complete and/or file the following reports promptly:

- FTR – Government Code (GC) section 53891 requires that the financial transactions of each local agency be submitted to SCO within seven months after the close of the fiscal year or within the time prescribed by the Controller, whichever is later. The report must contain underlying data from audited financial statements prepared in accordance with generally accepted accounting principles, if this data is available. The county filed its FTRs for FY 2016-17 through FY 2020-21 late, as shown in the following table:

<u>FTR for Fiscal Year</u>	<u>Due Date</u>	<u>Date Filed with SCO</u>	<u>Number of Days Late</u>
2020-21	January 31, 2022	<i>Pending</i>	<i>Delinquent</i>
2019-20	January 31, 2021	March 16, 2022	409
2018-19	January 31, 2020	May 1, 2020	91
2017-18	January 31, 2019	May 7, 2019	96
2016-17	January 31, 2018	February 13, 2018	13

- SAR –The federal Uniform Guidance (Code of Federal Regulations, Title 2, Part 200) mandates that any non-federal entity that expends \$750,000 or more in federal awards during a fiscal year complete a SAR within nine months after the fiscal year-end.<sup>1,2</sup> Humboldt County has completed its SARs for FY 2017-18 through FY 2020-21 late, as shown in the following table:

<u>SAR for Fiscal Year Ending</u>	<u>Due Date</u>	<u>Extended Due Date</u>	<u>County Completion Date</u>	<u>Number of Days Late</u>
June 30, 2021	March 31, 2022	September 30, 2022	<i>Pending</i>	<i>Pending</i>
June 30, 2020	March 31, 2021	September 30, 2021	<i>Pending</i>	<i>Delinquent</i>
June 30, 2019	March 31, 2020	N/A	September 25, 2020	178
June 30, 2018	March 31, 2019	N/A	June 6, 2019	67
June 30, 2017	March 31, 2018	N/A	March 21, 2018	<i>On time</i>

- ACFR – An ACFR is a set of financial statements for a state, municipality, or other governmental entity that comply with the accounting requirements established by the Governmental Accounting Standards Board.<sup>3</sup> Completion of the ACFR satisfies various auditing and reporting requirements, including those in GC sections 25250 and 25253. For the ACFR to be relevant and useful, it should be completed within nine months after the fiscal year-end. The ACFR is usually completed in conjunction with the SAR. Humboldt County has

<sup>1</sup> Non-federal entities include states, local governments, Indian tribes, universities, and non-profit organizations.

<sup>2</sup> On March 19, 2021, the Office of Management and Budget issued memorandum M-21-20, extending the SAR due date for FY 2019-20 and FY 2020-21 by six months.

<sup>3</sup> Some entities, including Humboldt County, complete and issue a financial statement report instead of a full ACFR.

completed its financial statements for FY 2017-18 through FY 2020-21 late, as shown in the following table:

ACFR for Fiscal Year Ending	Due Date (Best Practice)	SAR Extended Due Date	County Completion Date	Number of Days Late
June 30, 2021	March 31, 2022	September 30, 2022	<i>Pending</i>	<i>Pending</i>
June 30, 2020	March 31, 2021	September 30, 2021	<i>Pending</i>	<i>Delinquent</i>
June 30, 2019	March 31, 2020	N/A	September 25, 2020	178
June 30, 2018	March 31, 2019	N/A	June 6, 2019	67
June 30, 2017	March 31, 2018	N/A	March 21, 2018	<i>On time</i>

### Prior Financial Reporting Findings

Between 2018 and 2020, various accounting and reporting issues have been identified and reported to county management. These include reports by Craig Goodman, CPA, and CPS HR Consulting in 2018; and by the Humboldt County Civil Grand Jury in 2019. CliftonLarsonAllen, LLP also reported internal control findings related to financial reporting in the county's audited financial statements for the fiscal years ending June 30, 2018, and June 30, 2019, completed on June 6, 2019, and September 25, 2020, respectively.

In 2017, after claims that the Auditor-Controller's Office (ACO) was failing to perform its duties, the Board of Supervisors directed the County Administrative Officer to contract with Craig Goodman, CPA, and CPS HR Consulting to conduct management and accounting reviews of the ACO's policies and procedures. The firms completed their reviews and reported the results to the county in 2018. These reports included findings and recommendations relevant to financial reporting. Following completion of these reviews, the county's Civil Grand Jury performed its own investigation to review the county's responses and to evaluate the progress in resolving the review findings and recommendations.

We performed this review of the county's internal controls over its annual financial reporting process due to the county's continuing inability to complete its annual financial reports promptly, and ongoing claims of poor financial reporting practices.

### Review Authority

We conducted this review pursuant to GC section 12422.5, which authorizes the State Controller to "audit any local agency for purposes of determining whether the agency's internal controls are adequate to detect and prevent financial errors and fraud."

### Objective, Scope, and Methodology

The objective of our review was to evaluate the county's internal controls over its annual financial reporting process to determine whether the county's inability to submit timely annual financial reports is due to a lack of internal controls.

Our review period was July 1, 2019, through June 30, 2021. We expanded our scope to include prior fiscal years and the current fiscal year when information obtained from county officials, independent auditors, and other audit reports merited further review.

To achieve our objective, we:

- Evaluated the county’s formal internal policies and procedures;
- Reviewed the Independent Auditor’s Report, and other reports and studies that were relevant to our objective;
- Interviewed county employees; and
- Evaluated various aspects of the county’s internal control system in accordance with *Standards for Internal Control in the Federal Government*.

## Conclusion

Our review found internal control deficiencies that contributed to the county’s inability to complete its annual financial reports promptly. These deficiencies, several of which have been identified in various reports, include:

- The county amassed a backlog of journal entries;
- The county failed to complete its cash reconciliations;
- The ACO is insufficiently staffed;
- County staff members need additional training; and
- The county lacks updated policies and procedures.

## Views of Responsible Officials and SCO Comments

We issued a draft review report on June 17, 2022. The Office of the Humboldt County Auditor-Controller and the Humboldt County Administrative Officer responded by separate letters dated June 27, 2022, agreeing with the review results. The additional details and the perspectives provided in the responses do not change our review conclusions and recommendations.

The ACO’s and County Administrative Officer’s complete responses are included in this report as Attachments A and B.

## Restricted Use

This report is solely for the information and use of Humboldt County and SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this review report, which is a matter of public record and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

KIMBERLY TARVIN, CPA  
Chief, Division of Audits

July 22, 2022



# Findings and Recommendations

**FINDING 1—  
The county  
amassed a backlog  
of journal entries**

The county amassed a backlog of journal entries that were required to be processed prior to finalizing the financial statements. This delay significantly contributed to the county's inability to produce timely year-end financial statements. The backlog in approving journal entries resulted from substantial changes to the county's journal entry approval processes implemented in 2019 to increase reliability of the submitted journal entries and identify potential errors.

## Background

Journal entries are used to record various financial transactions including accounting adjustments or corrections, allocating revenues and costs between departments, and recording operating transfers. In Humboldt County, journal entries originate from various county departments. The entries are prepared by the department's fiscal staff and sent to ACO to be processed and entered into the county's general ledger.

Prior to policy changes, ACO placed greater trust and reliance on the various county departments that submitted journal entries. Prior policies and procedures required departments to submit no more than two pages of documentation to support each journal entry. In some cases, this documentation consisted of a cover page and a summary that provided insufficient detail. Receiving only two pages of documentation to support the journal entries likely limited the ACO's ability to identify errors, misclassifications, improper entries, and fraud. According to the current Auditor-Controller and county staff, the county relied too heavily on the year-end financial statement auditors to catch and identify material errors in the accounting records, which most times led to substantial year-end adjustments. These adjustments were a result of erroneous and improper journal entries. To increase reliability and to minimize year-end adjustments, the current Auditor-Controller implemented new policies requiring substantially more documentation, and requiring ACO to review all submitted documentation prior to approving and entering journal entries in the financial system.

## **Erroneous journal entries**

According to ACO staff members, many of the journal entries received for processing contain errors, including incorrect object codes for classifying transactions into specific accounting categories; unbalanced debits and credits; insufficient or missing descriptions; and insufficient or missing supporting documentation. Some of these errors existed prior to the requirement to submit additional documentation to ACO; other errors were identified because ACO was receiving additional documentation and conducting a more thorough review. When ACO identifies multiple journal entries with errors from a department, ACO deems that department a higher risk and increases controls as necessary.

The additional time necessary to reject an incorrect journal entry, make the necessary corrections, and re-review the entry contributed to the backlog of journal entries.

### **Implementation of the policy changes**

According to county staff members, the policy changes were abrupt, and the departments were provided inadequate notice and explanations of the changes. County staff members also complained that the new policies were confusing because they were not formalized and documented countywide and were inconsistently applied. For example, departments were directed to provide to ACO “all” of the documentation that supports every journal entry. The types and extent of documentation required are not standard for all the different departments, business processes, and accounting entry types within the county. The required documentation may be brief or consist of hundreds of pages.

A significant amount of time was necessary both for the departments to understand what documentation was required and for ACO to review the documentation. In some cases, the previously submitted documentation was not satisfactory, and ACO had to request additional or alternate documentation. Department staff and ACO stated that the additional documentation requirements were not initially well-received. Department staff also questioned the need for some of the additional documentation.

### **Backlog of Journal Entries**

A combination of erroneous journal entries, additional review of the journal entries by ACO, and unrealistic expectation of the time needed to implement the new procedures contributed to the backlog of journal entries. Insufficient staffing of ACO (Finding 3) and the need for additional training for departmental staff members (Finding 4) also contributed to the backlog of journal entries.

One reason for numerous journal entries is that the county previously relied too heavily on its external auditors to identify financial transaction errors, including journal entry errors and to help the county correct those errors during the annual year-end financial reporting process. As a result, the county has not placed much emphasis on preparing journal entries that are as free from errors as possible. Although external auditors routinely look for errors, the county should have a process in place to ensure that journal entries are prepared correctly and with minimal errors.

To eliminate the backlog, the county hired a consultant to help process journal entries and reconcile financial records for FY 2019-20 and FY 2020-21.

Timely and correct accounting data are essential for fiscal monitoring; therefore, financial transactions must be recorded promptly and accurately. The substantial backlog and extensive turnaround time to post journal entries made the county’s accounting data unreliable. For instance, in September and October 2021, 15 months after the June 30 fiscal year-end, ACO staff members posted journal entries totaling \$106 million to the FY 2019-20 general ledger. As a result, county management may have been using outdated accounting data throughout FY 2019-20 when making fiscal decisions.

### Recommendation

We recommend that the county:

- Develop a plan to process the backlog of journal entries and to ensure that the backlog does not occur in the future;
- Formalize and implement policies and procedures to ensure that journal entries recorded in the general ledger are properly reviewed and approved;
- Improve communication and working relationships among ACO, the County Administrative Officer, and county departments;
- Clarify what documentation is necessary for journal entry approval and streamline journal entry processes and procedures; and
- Ensure that journal entries are prepared accurately and in conformance with county requirements, recorded in accordance with accounting principles, and processed promptly.

**FINDING 2—  
The county failed  
to complete its cash  
reconciliations**

The county does not reconcile its bank balances and the county treasurer's accounting records, nor does it reconcile cash and investment accounts between the county treasurer's records and the Auditor-Controller's records pursuant to GC section 26905. The county's failure to complete timely cash reconciliations contributed to the delay of its financial reports.

#### **Bank reconciliations**

Due to a lack of records, it is not clear when the county last performed a bank reconciliation. As part of its efforts to complete its FY 2019-20 financial statements, the county contracted with a consultant to complete the monthly bank reconciliations for that fiscal year. However, as of April 2022, it appears that the consultant will not be able to complete the bank reconciliations before the contract ends, due to the lack of documentation and the abundance of transactions.

The county's cash deposit process is currently completed manually, and individual deposits are grouped into lump-sum amounts before being deposited at the bank. County records do not specify which transactions correlate to a deposit amount in a bank statement. This process makes it difficult for accountants to trace deposit amounts from the bank statements to the county's records.

The county appears to have difficulties preparing bank reconciliations partly because it does not have formal processes and procedures for guidance. Insufficient knowledge and incomplete accounting records also appear to prevent staff members from performing reconciliations efficiently.

### Cash and investment account reconciliation

The county does not comply with the cash and investment account reconciliation required by GC section 26905, which states:

Not later than the last day of each month, the auditor shall reconcile the cash and investment accounts as stated on the auditor's books with the cash and investment accounts as stated on the treasurer's books as of the close of business of the preceding month to determine that the amounts in those accounts as stated on the books of the treasurer are in agreement with the amounts in those accounts as stated on the books of the auditor.

The cash and investment account reconciliation finding was noted in prior reports (by Craig Goodman, CPA, and CPS HR Consulting in 2018; by the Humboldt County Civil Grand Jury in 2019; and by CliftonLarsonAllen, LLP in 2020), and appears to continue to the present.

The bank balance should be reconciled to the county treasurer's balance, and the cash and investments balance in the county's general ledger should be reconciled to the total cash and investments balance in the county treasurer's records. Cash reconciliations with the banks' records, county treasurer's records, and the general ledger allow the county to determine whether all cash transactions have been recorded properly and to detect errors and fraud. Cash reconciliations also assist in regular monitoring of a county's cash flows and assure accuracy and timeliness of withdrawals and deposits.

#### Recommendation

We recommend that the county:

- On a regular basis, reconcile bank and general ledger balances to the county treasurer's records, to ensure that the cash balance reported in the general ledger is complete and accurate;
- Develop a plan to complete the backlog of cash reconciliations; and
- Develop, formalize, and implement procedures to ensure that cash reconciliations are completed, reviewed, and approved in a timely manner.

### **FINDING 3— Auditor- Controller's Office staffing is insufficient**

In the last three years, insufficient staffing has kept ACO from accomplishing its duties and responsibilities. This lack of staffing was noted by Craig Goodman, CPA, and CPS Consulting in 2018; and by the Humboldt County Grand Jury in 2019. ACO continues to lack adequate staffing. The lack of staffing has resulted in a heavier workload for the remaining staff members and contributed to the county's inability to promptly complete its financial reports. Adequate staffing is necessary to maintain accurate and timely accounting records.

ACO has had ongoing vacancies caused by separations, promotions, and difficulty recruiting qualified staff to fill vacancies. During FY 2019-20 and FY 2020-21, ACO had a total of 13 full-time positions comprised of the Auditor-Controller, the Assistant Auditor-Controller, and 11 accountant/auditor/fiscal staff. Throughout these two fiscal years, ACO

had an average of three staff vacancies. During this time, ACO also lost two of its most senior staff and had difficulty backfilling the positions. As of April 2022, three accountant/auditor/fiscal positions continue to be vacant.

In August 2021, the county approved an operational realignment moving payroll functions from the Human Resources Department to ACO. The realignment increased the ACO's workload and contributed to the ACO's staffing problems. Two of the five payroll staff positions are currently vacant, leaving the payroll unit without a full staff. This staffing shortage requires other ACO staff members to work on payroll functions instead of financial functions because payroll must be completed biweekly to ensure that county employees are paid on time.

#### Recommendation

We recommend that the county:

- Reassess the staffing levels allocated to ACO;
- Implement a remedial action plan to address the importance of hiring, developing, and maintaining qualified permanent staff; and
- Consider hiring additional consultants or qualified staff to backfill or assist ACO in performing functions.

#### **FINDING 4— County staff members need additional training**

During our conversations, staff members from various departments expressed their eagerness to accomplish their assigned responsibilities. To make this possible, the county must communicate the requirements it wants to implement and provide proper training on how the requirements are to be fulfilled. According to ACO, it provided various communications and training when the county made changes to its journal entry processing. However, staff members claimed that the implementation was abrupt and that additional training would have been helpful.

It also appears that many county staff members lack sufficient knowledge about using the county's financial accounting software. These training issues were identified and reported by Craig Goodman, CPA, and CPS HR Consulting in 2018; and by the Humboldt County Civil Grand Jury in 2019. The county hired consultants to provide training sessions on its accounting software. Our interviews of staff members and management indicate that staff continue to need a better understanding of the software. The county could also improve efficiency by eliminating or minimizing paper transactions and using more of the accounting software's available functions to process transactions electronically. It is difficult to determine whether the continued need for additional training was due to staff turnover, loss of institutional knowledge, or inadequate training.

One of the principles of an effective internal control system is an organization's commitment to competence. Management should ensure that its personnel possess and maintain a level of competence that allows them to accomplish their assigned responsibilities and understand the importance of effective internal control.

Recommendation

We recommend that the county implement a training plan for its staff to increase their understanding of accounting procedures and the county's accounting software.

**FINDING 5—  
The county needs  
to update policies  
and procedures**

The ACO's *Department Policy & Procedure Manual* was last updated in 2012 and does not reflect current procedures. The manual also lacks complete and accurate documentation of current processes. The county has updated certain policies on an ad hoc basis. However, according to county staff members, these ad hoc policies are confusing, and sometimes they are conflicting or not communicated properly.

A well-designed and properly maintained system of accounting policies and procedures enhances accountability and helps improve business processes and efficiency. The resulting documentation can also serve as a useful training tool for staff. Incomplete and outdated policies and related internal controls result in unclear roles and responsibilities and lead to improper handling of transactions. Formal accounting policies and procedures should be available to staff, back-up staff, and new employees.

The lack of policies and procedures has been identified and reported previously, by Craig Goodman, CPA, and CPS HR Consulting in 2018; and by the Humboldt County Civil Grand Jury in 2019.

The county has indicated that it is currently working with a consultant to update its accounting policy manual.

Recommendation

We recommend that the county:

- Continue to review, update, and document its accounting policies to ensure consistency with current processes;
- Ensure that its accounting policies clearly state the authority and responsibility of appropriate parties; and
- Disseminate the accounting policies to all responsible employees and provide training when necessary.

**Attachment A—  
Humboldt County Auditor-Controller’s Office  
Response to Draft Review Report**

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Date: Monday, June 27, 2022

Auditor-Controller's Response to SCO Draft Report Dated June 17, 2022

The Office of the Auditor-Controller (A-C Office) is grateful for the time and efforts of the State Controller Office (SCO) with regard to the investigation into the County of Humboldt's internal controls. It has been the primary intention of the A-C Office to bring the County into compliance with the guidelines outlined by the SCO in its Accounting Standards & Procedures Manual as well as the codifications, principles, and pronouncements of the Internal Revenue Service (IRS), Generally Accepted Accounting Principles (GAAP), and Government Accounting Standards Board (GASB). While the A-C Office has made great improvements in this regard over the past 4-5 years, its progress was hampered by the coronavirus pandemic combined with a continuing lack of support received from the County's governing body - the Board of Supervisors and its appointed offices. The findings of the SCO along with this response will serve to ensure that attention is given to resolving the long-standing conflicts within and across the County of Humboldt's departments as well as repair its entrenched culture of obstructing progress.

**Regarding Finding #1 – The county amassed a backlog of journal entries**

The SCO has identified the cause of the backlog of journal entries as “a combination of erroneous journal entries, additional review of the journal entries by ACO, and unrealistic expectation of the time needed to implement the new procedures...” as well as “insufficient staffing of ACO and the need for additional training for departmental staff members...” While it is true that erroneous journal entries were submitted to the A-C Office for processing due to untrained staff in County departments, and while it is true that the A-C Office lacked adequate staffing, there are other notable reasons why journal entries were backed up during the period in question.

The additional reasons for the backlog of journal entries include an incomplete “Continuance of Operations Plan” (COOP) for the A-C Office, the direction of the County Administrative Office (CAO) to the A-C Office to send one of its few accountants to the Emergency Operations Center (EOC) full time, and the conflicting priority projects of the Board of Supervisors and CAO that pulled the A-C Office away from its state-mandated duties. Detailing them below will hopefully prevent similar preventable situations in the future as recommended by the SCO (first bulletpoint in SCO's recommendation).

It should be noted that the County had an existing “Continuance Of Operations Plan” (COOP) for the A-C Office that was presented to the A-C Office during the onset of the coronavirus pandemic in early 2020. That COOP included the services that were considered to be essential and department heads were encouraged to limit their departments' activities to only those that were considered essential. The A-C Office's COOP identified the processing of invoices and payroll as essential services but did not identify journal entries. This COOP was distributed to all departments by the CAO and no feedback was provided to the A-C Office regarding the absence of journal entries.

Additionally, the A-C Office was directed to send one of its accountants to the Emergency Operations Center (EOC) to work on coronavirus response full-time. The accountant that was sent to the EOC was a brand new employee of the A-C Office (a position that had recently been appropriated to the A-C Office by the Board of Supervisors) who was forced to spend 7 months at the EOC receiving inadequate training from non-A-C staff. During this time, the A-C Office suffered delayed processing times due to having one of its positions filled by a staff person it couldn't utilize. While that position was filled, the A-C Office was prohibited from hiring a replacement.

Additionally, the Board of Supervisors and its CAO chose to push for the completion of two different projects despite being faced with an unprecedented pandemic and low staffing levels. These two projects were the now-failed project to outsource payroll to ADP and the forced upgrade of the County's financial software. Both projects required a heavy time investment from the A-C Office that pulled it away from its state-mandated duties and its essential functions.

Lastly, the SCO's recommendations to “formalize and implement policies”, “clarify what documentation is necessary”, and “ensure that journal entries are prepared accurately and in accordance with accounting principles” are already what the A-C Office has been trying to do for the past 4 years. The A-C Office provided all departments with the SCO's ASP manual, individual



and group trainings, reference materials, and documented examples. The problems are not caused by the A-C Office not communicating or providing direction but rather by having non-accounting staff across County departments being charged with completing and submitting accounting work combined with a lack of staff in the A-C Office to process that work. The solution to this problem is to centralize the accounting function under the County's Chief Accounting Officer, the Auditor-Controller, and to deallocate the fiscal positions from County departments and allocate them under the Auditor-Controller. That way, accountants will be hired to do accounting work and they can receive training from the Auditor-Controller directly.

**Regarding Finding # 2 – The county failed to complete its cash reconciliations**

It is true that the County of Humboldt does not have and has not had a true bank reconciliation for at least a decade. This was previously communicated by the Auditor-Controller to the Treasurer-Tax Collector, the CAO, the Board of Supervisors, and the County's external auditors. The County's external auditors communicated to the Auditor-Controller that they were aware that no bank reconciliation had been performed and that was why they increased their testing of transactions during their audit. However, the Treasurer-Tax Collector, the CAO, and the Board of Supervisors refused to acknowledge the missing bank reconciliations and argued that they existed up until 2019. To date, no evidence of bank reconciliations has been provided to the Auditor-Controller.

At the start of fiscal year 2019-2020, the Auditor-Controller implemented a change to the process of recording deposits, aka cash receipts. That change required that deposits be recorded on the day that they were actually deposited at the bank rather than the day the Treasury staff prepared their batch for posting to the general ledger. This change will assist in the reconciliation of deposits as there will hopefully be a match of sum totals from the general ledger to the bank statement on any given day. Prior to this, reconciliation of deposits was nearly impossible.

The A-C Office agrees with the general recommendations of the SCO in this regard though notes that the SCO has not provided any specific methodologies to accomplish them. The Auditor-Controller recommends that the County transition its methods away from recording cash in every single fund and instead toward a true pooled cash methodology that holds all cash in one account. County funds should then have "claims on cash" that can be reconciled separately. This will allow for efficient reconciliation of cash between the Treasurer-Tax Collector, the Auditor-Controller, and the bank, while still providing departments the ability to record transactions across their many funds and budget units.

**Regarding Finding #3 – Auditor-Controller's Office staffing is insufficient**

The A-C Office emphatically agrees with this finding.

**Regarding Finding #4 – County staff members need additional training**

The A-C Office emphatically agrees with this finding. However, it should be noted that the responsibility to train employees rests with the department that hires them. If the goal is to train accountants, then those accounting positions should be centralized under the Auditor-Controller.

**Regarding Finding #5 – The county needs to update policies and procedures**

The A-C Office emphatically agrees with this finding. It should be noted that the decentralized nature of the County's fiscal processes poses a significant hardship for the A-C Office to update its policies and procedures in a timely and efficient manner. Experience has shown that when the County of Humboldt has failed in several efforts (ADP outsourcing project, Classification & Compensation Study, "Great Workplace Culture" initiative) because it spends an unreasonable amount of time in meetings getting "buy-in" from people who are not directly relevant to the project or people who are not subject matter experts. This then delays progress until the project is obsolete. The recommendations from the SCO are appropriate and the County would benefit from implementing them in an expedient manner including only those who are directly relevant to the decision-making and implementation. If the goal is to comply with accounting principles, then the County should also defer to the Auditor-Controller as the subject matter expert in accounting policies and procedures rather than staff in other departments who do not have formal education or experience in accounting.

**Attachment B—  
Humboldt County Administrative Officer’s  
Response to Draft Review Report**

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## COUNTY OF HUMBOLDT

### COUNTY ADMINISTRATIVE OFFICE

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June 27, 2022

#### **RE: County Administrative Officer Response to Internal Controls Over Financial Reporting Review and Findings**

Dear Honorable Betty T. Yee,

As the County Administrative Officer, I largely agree with the findings contained in the above-mentioned report; however I would like to add some points of clarification.

Since the current Auditor-Controller (AC) began working at the county the AC's Office has received significantly more resources, relative to the office's budget, than any other general fund department during the same time frame. The AC's inability to effectively utilize the resources and staff provided, and the county's lack of statutory authority to direct an independently elected official, have been significant factors in the county's failing to file timely reports.

The following investments have been made to support and/or mitigate the actions and delays of the Auditor-Controller:

#### **Professional Services and Supplies**

- \$1.25 million for Macias, Gini & O'Connell (MGO) to provide financial advisory services:
  - Working with state agencies on extended cost report due dates in order to claim county central service charges.
  - Long-range financial planning as a result of central service charge losses, or other revenue losses.
  - Working with staff to address the Auditor-Controller's (AC) concerns over the distribution methodology for utility charges.
  - Assisting with the development of the internal service fund charges for fiscal year 2021-22.
  - Developing and implementing financial strategies for resolving fiscal problems.
  - Provide direction, support, and advice to department/agency representatives and other officials regarding direction, support, and provide advice to department/agency representatives and other officials regarding fiscal problems.
  - Addressing audit findings from the Single Audit Report Year Ended June 30, 2019, and any future findings.
  - Developing financial policies.
  - Participate in the Auditor-Controller's Office (ACO) staffing study, in collaboration with Human Resources.
  - And other financial related tasks that work to improve the county's financial position and internal controls.

- \$20,000 was allocated to improve technology (wiring) in the Auditor-Controller's Office.
- \$15,700 was allocated for leadership and team development training for Auditor-Controller's Office.
- \$51,000 was allocated for new office furniture to improve morale for the Auditor-Controller's staff.
- \$9,500 was allocated for new computers and training for Auditor-Controller's Office to improve efficiency.
- \$35,655 was allocated to conduct a Management & Operations Study to identify areas of improvement.
- \$20,000 was allocated for Craig Goodman, CPA to perform an assessment of the county's accounting and budget practices.
- \$68,000 was allocated for Robert Sesnon, CPA (IT and accounting specialist) to assist with the chart of accounts project.
- \$5,200 was allocated to prepare the delinquent Financial Transaction Report (this support was rejected by the Auditor).

### **Staffing**

The Board has increased the AC's staffing 31% since FY 2017-18, allocating 3.5 additional full-time equivalent (FTE) accounting staff and 1.0 FTE payroll staff at the direct request of the Auditor-Controller and outside of the normal budget process. In 2017-18 the office had 14.5 FTE, 4.0 of which were payroll staff. Now, the office has 19.0 FTE, 5.0 of which are payroll staff. The personnel serving in those positions have experienced consistent turnover since the current Auditor-Controller began serving at the county. There is only 1 employee currently on the staff who was employed with the office prior to the current elected Auditor-Controller taking office.

In addition, staff have been provided to the AC by many different departments, including the Sheriff, Health and Human Services, Probation, the District Attorney and Public Works, to assist with the backlog of journal entries and other fiscal tasks, with offers to loan staff as long as required.

Those staff were often given remedial tasks with no autonomy or authority and were eventually returned to departments within days. The ability to utilize those resources effectively was incumbent upon the AC.

The turnover, recruitment challenges and loss of institutional knowledge have negatively impacted the ability to effectively manage an office with demanding deadlines and workloads.

### **Management Actions**

The Board of Supervisors have taken significant steps to improve the recruitment and retention of qualified personnel, including the following:



- All staff have received significant Cost of Living increases ranging from 7.5% to more than 15% in 2022 to address recruitment and retention challenges.
- The county has worked for several years on formal efforts to improve the work culture and employee satisfaction within the organization.
  - The Board formally adopted a resolution directing staff to improve Diversity, Equity and Inclusion (DEI) efforts at the county.
  - The CAO developed a Steering Committee for its years-long Great Workplace Culture Change Initiative.
  - The Board adopted and revised its Code of Conduct policy.

In addition, the Board developed an Audit Committee comprised of experienced and education appointees to evaluate, appoint, and dismiss the county's independent accountants, and determine their scope of work, review the annual audits and work plans to address findings, and conduct investigations into complaints regarding accounting, internal controls, or auditing matters.

### **Authority and Hostile Work Environment**

The Auditor-Controller is an elected official who has often publicly refused to follow the "direction" of the Board of Supervisors for even the most simple and non-controversial tasks. As such, county staff have been required to submit to the AC's unclear processes that frequently change without notice and are often to the detriment of the organization, doing so under fear of harassment and realized retaliation.

I must commend staff in their diligence and commitment in attempting to work with the Auditor-Controller. It has not been easy, and staff have had to endure a hostile work environment, retaliation, multiple accusations of fraud and corruption, and a lack of leadership and communication.

Approximately \$345,000 has been spent in personnel investigations associated with the Office of the Auditor-Controller. Some of the findings confirmed in those investigation are as follows:

- Ms. Paz Dominguez has engaged in retaliatory, harassing and/or bullying behavior in the exercise of her duties as an elected Auditor-Controller.
- Ms. Paz Dominguez fostered an atmosphere of hostility, retaliation, and bullying.
- Ms. Paz Dominguez demonstrated a lack of leadership, mismanagement and making poor policy decisions.
- Ms. Paz Dominguez's actions and comments caused animosity amongst the employees and increased employee's stress and anxiety.
- Ms. Paz Dominguez was repeatedly inconsistent in her directives and blamed her errors on her subordinates.

**Summary**

With little improvement arising from the resource allocations, program evaluations or through different communication tactics, the temperature of the organization began to rise rapidly late last year. Agencies outside of the county began to make public displays of displeasure, including votes of no confidence and threats of litigation, with most recently the Attorney General filing suit against the County of Humboldt and Karen Paz Dominguez herself. The Board of Supervisors, after doing all of the things discussed above also chose to escalate this matter by taking a vote of no confidence, censure and filing cross complaints of litigation.

I believe this report falls short in describing the efforts of the organization to address the challenges experienced, which have caused financial strain well beyond the untimely filing of the Financial Transaction Reports. I understand it is the priority of the State Controller to remain neutral in evaluating the county's practices and my intention is not to discredit those efforts, rather it is to stand firm in the defense of staff and the Board who have vigilantly served this organization and their community in an unprecedented time that has been trying to their very own value systems.

With a new Auditor-Controller elect preparing to take office, my office remains committed to process improvement, resource allocation and effective communication, and will work closely with the incoming Auditor-Controller to develop a comprehensive action plan that seeks to accomplish the recommendations contained in this report.

Thank you for the time, effort and support of the State Controller's Office.

Sincerely,



Elishia Hayes  
Humboldt County Administrative Officer

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