

RESPONSE TO GRAND JURY REPORT

Report Title: The Mis-Fortunes of Humboldt County

Report Date: 7/11/19

Response by: Board of Supervisors, County of Humboldt; Department of Public Works; Department of Health & Human Services (DHHS); County Administrative Office (CAO)

FINDINGS

- 1. The county agrees with the findings numbered F1, F7, F8 and F9.
- 2. The county partially agrees with the findings numbered F2, F3, F4, F5, F6, F10, F11, F12, F13, F14, F15 and F16.
- 3. The county disagrees with the findings numbered:

RECOMMENDATIONS

- 1. Recommendations numbered R1, R5, R6, R9, R11, R13 have been implemented.
- 2. Recommendations numbered R15 and R16 are in the process of being implemented.
- 3. Recommendations numbered R2, R8, and R12 will be implemented.
- 4. Recommendation numbered R7 requires further analysis.
- 5. Recommendations numbered R3, R4 and R14 will not be implemented.

Date: _____ Signed: _____

Number of pages attached: _____



COUNTY OF HUMBOLDT
COUNTY ADMINISTRATIVE OFFICE
MANAGEMENT & BUDGET TEAM

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INTEROFFICE MEMORANDUM

TO: BOARD OF SUPERVISORS
FROM: AMY S. NILSEN, COUNTY ADMINISTRATIVE OFFICER
SUBJECT: RESPONSE TO 2018-19 GRAND JURY REPORT “MIS-FORTUNES”
DATE: 10/8/2019

The 2018-19 Grand Jury has issued a report entitled “Mis-fortunes” and the Board of Supervisors, Department of Health & Human Services (DHHS), and Department of Public Works are required to respond to findings and recommendation in this report. I recommend that the Board, DHHS and Public Works respond jointly as follows:

FINDINGS

Finding 1: Continued diligence, cooperation, and teamwork among the Auditor-Controller the County Administrative Office, and all Department Heads is vital in balancing the financial sources and revenues in the budget.

Response: Agree

In order to effectively and efficiently manage the county’s operations it is imperative for all county departments to have good working relationships that involve positive communication techniques with inclusive collaboration between departments to ensure that funds and programs are properly managed.

Finding 2: The County lacks a year-end reporting process established to guarantee that all Generally Accepted Accounting Practices (GAAP) entries are made for financial reporting.

Response: Partially Agree

The Auditor is working with the county's external auditors to develop a year-end process and to make sure that all required GAAP entries and transactions are posted to the county's financial system, OneSolution. OneSolution is capable of producing basic financial statements and reports. The Board has been supportive of investing county resources improve these. In fact, the County Administrative Office worked with an outside consultant to prepare reports that comply with GAAP and State Controller requirements to furnish Schedules 1 through 9. Those reports were included with the fiscal year (FY) 2019-20 Adopted Budget.

Finding 3: The financial reports currently available to the County Administrative Office and Auditor- Controller are inadequate to produce a balanced budget.

Response: Partially Agree

This year the County Administrative Office used OneSolution to produce the financial reports mentioned in Response to Finding 2, called "Schedules," and included Schedules 1 through 9 with the FY 2019-20 Adopted Budget. Schedule 1 in particular reflects "Revenues" of \$430 million plus "Other Financing Sources" of \$54.2 million, for a total of \$484.2 million. This amount equals the sum of "Expenditures" (\$451.6 million) and "Other Financing Uses" (\$32.6 million), which is \$484.2 million. This report is currently available in OneSolution and confirms the FY 2019-20 budget is balanced. Attachments 5 and 6 have been included here to show Other Financing Sources and Other Financing Uses for FY 2019-20.

In response to feedback provided by the Auditor, trust funds have not traditionally been included in the budget documents as expenditures are not allowed to be made directly from trust funds. While this has happened on very rare occasion in the past, thankfully such actions have been found by outside auditors and corrected. In order for expenses to be paid using money from trust, those monies must first be transferred to a budget unit either through the budget process or a supplemental budget agenda item. However, in order to increase transparency regarding county funds, the County Administrative Office will include in the proposed and adopted budget the General Ledger Summary Report (Attachment 11), which includes the fund balances of all funds held in the county treasury, including schools and special districts, as of June 30, 2018. It should be noted these balances are prior to year-end closing and are subject to change.

Finding 4: The tracking of the funding sources and uses are not being adequately documented for numerous programs and departments.

Response: Partially Agree

The county's budget historically classified all the county's funding into two categories: revenues

and expenditures. This year the Auditor and County Administrative Office worked to incorporate two new categories of funding in the county's budget, called "Other Financing Sources" and "Other Financing Uses." The funds now classified as "Other Financing Sources" in the past were recorded by departments as revenue as this activity was often transferring funds from trust accounts to a department, or transferring from one department to another. The funds now classified as "Other Financing Uses" in the past were recorded as expenditures and are often transferring money away from a department to trust accounts, or transferring money to other departments. The way public agencies account for these funds is part of a national discussion and is ultimately a local decision. This new accounting method provides greater transparency and is a welcome change. However, the county has tracked these funds in the past, and has provided documentation upon request by the public or auditors.

Finding 5: Identification and reclassification of County trust funds are essential to improve transparency and accountability.

Response: Agree

Departments have been asked to identify trust funds that would qualify for elimination in order to consolidate trusts and provide for more transparency in the reporting of county finances. This work will continue over the coming fiscal year. In addition, the County Administrative Office will work to prepare concise reporting of all trust funds to include in the budget process for fiscal year 2020-21.

Finding 6: The miscellaneous revenue account has been used, and is continuing to be used, to include revenues that should be posted in specific accounts.

Response: Partially Agree

The county has followed the guidance of past and present Auditor Office staff in the use of the "miscellaneous" revenue account. As of FY 2019-20, the use of "miscellaneous" revenue codes is no longer permitted, and staff are working with Auditor staff to identify more appropriate object codes to be used to classify funding sources.

Finding 7: Improved diligence, cooperation, and teamwork are vital in determining the appropriate object code listings required for the proper management of Inter-Fund transfers.

Response: Agree

Staff are working with the Auditor's Office to identify individual transactions that should be re-coded in order to improve transparency and the ability to track interfund transfers. While staff is working to implement these changes, it should be noted that the State Controller's Manual states that object codes listed in the manual are a minimum outline of recommended object codes, and public agencies should develop the list of object codes that meet their own needs. Cooperation and teamwork by all involved will need to continue in order to make these important changes. The county is a large organization with many employees and even more transactions. Changes that affect the entire organization must be done with care, and lots of supporting resources. Making many sweeping changes quickly is easier said than done and can put at risk the county's ability to track its transactions and keep up with daily workload. Well-executed changes have taken these dynamics into account.

Finding 8: The Accounting Services Improvement Working Group was formed to develop the Auditor-Controller Policies and Procedures for all County departments. This committee is not functioning as envisioned by the consultants.

Response: Agree

The Accounting Services Improvement Working Group (ASIWG) was established by the Board of Supervisors on Sept. 11, 2018 (agenda item I-1). This agenda item directed all departments to participate in the ASIWG. The Board did alter CPS HR's recommendation, and included in the ASIWG's responsibilities to work on General Accounting Standards Board (GASB) implementation and other process improvements, such as Accounts Payable. CPS HR is a public agency joint powers authority that provides human resources management services for only public-sector clients including federal, state, local, special districts and non-profit organizations. CPS HR specializes in organizational assessments. While a facilitator was contracted to provide services for several of these meetings, the Board did not provide funding for a facilitator on an ongoing basis. The ASIWG met on Sept. 26, Dec. 19, 2018, and again in 2019 on Jan. 16, April 10, June 12, June 19, and July 3.

This group did establish a charter (see Attachments 7 through 9) with the aid of facilitator Heather Equinoss during September 2018 and the charter was distributed to CAO and Auditor staff on Oct. 12, 2018. Revisiting the charter would be helpful, however, the Auditor has declined to further participate in these meetings and instead is working individually with departments.

Finding 9: The OneSolution software is complex and requires extensive training in the involved departments. This training would address several of the shortcomings of the County's budgeting and required accounting functions.

Response: Agree

While the OneSolution is complex, departments and employees use the software differently. Some use it extensively, and some use it for basic data entry and report writing. In many cases, user manuals and refresher training may be the only tools necessary. For departments that use the software extensively and rely on it to report information to outside agencies, further training and investment is needed. To that end, the county has invested \$68,000 to contract with a consultant who has an expertise not only in OneSolution programing, but also finance and budgeting, to help move system improvements forward such as the revised chart of accounts. In addition, Information Technology has been working to implement a system upgrade to the 18.2 platform that will provide for an enhanced user experience. The County Administrative Office-Purchasing Team has set aside \$70,000 to purchase training for Cognos (a tool that helps create reports, such as financial tracking and monitoring) and a Contract module within OneSolution to improve tracking capabilities. Finally, Human Resources will be requesting funding for on-site OneSolution training and to have an expert create a workbook to support their work. Human Resources is also planning to purchase a Personnel Position Action Form module that will automate complex payroll operations involved in personnel changes. These are significant investments intended to improve the financial system and provide staff with the tools necessary to manage their operations.

Finding 10: At the time of this report, there is a lack of software training provided by OneSolution contractors and inadequate communication among County departments regarding responsibility for that training.

Response: Partially Agree

OneSolution does not provide a wide variety of training opportunities but they do offer online training resources that are available to all users. As mentioned in the response to Finding 9, many different departments have taken steps to provide the resources for training improvements. In addition, a OneSolution Steering Committee comprised of representatives from all county departments evaluates the OneSolution upgrades to determine the priority level of different projects, including training. Many of these projects are contingent upon the 18.2 upgrade. This upgrade requires testing by Purchasing, Payroll and the Auditor to ensure vital functions operate as expected. As of the date of this report, that testing was still taking place.

Finding 11: The County has adopted a Capital Asset Policy but has not implemented this policy.

Response: Partially Agree

The Auditor requires departments to adhere to Board-approved financial policies, including the

Capital Asset Policy. This policy provides guidelines for capital asset thresholds, reporting and tracking, and the Auditor has implemented mechanisms to ensure these functions are performed in accordance with the policy. Inventory of capital assets is an ongoing project that will require yearly updates.

Finding 12: The Auditor-Controller lacks the staff to provide and implement training plans for its employees.

Response: Partially Agree

The Board has dedicated the following resources to support the Auditor's Office since 2017:

- Added 1.0 Full-Time Equivalent (FTE) Accountant-Auditor I/II in FY 2018-19.
- Increased a 0.6 FTE to a 1.0 FTE Senior Fiscal Assistant as part of the Payroll Transition on November 6, 2018.
- \$20,000 was allocated to improve technology (wiring) in the Auditor's Office. A November 2018 report by CPS HR noted that this could eliminate as much as one hour per day for each Auditor staff member, which would be equivalent to 2.0 FTE per year.
- \$51,000 was allocated to fund a supplemental request for new office furniture.
- \$9,500 was allocated for new computers and training.
- In fiscal year 2018-19 and 2019-20, contracted with Robert Sesnon, CPA to provide support in preparing and implementing the chart of accounts at an expense of \$34,000 each year, for a total of \$68,000.
- \$15,700 was allocated to provide coaching on effective supervisory practices, effective communication skills, change management, county processes and practices, and political considerations in the context of decision making in FY 2018-19 through FY 2019-20.
- \$35,655 was allocated to conduct a CPS Auditor Management and Accounting Review.
- \$20,000 was allocated for Craig Goodman, CPA to perform an Assessment of Management Accounting Practices and Processes.

In addition, on Oct. 11, 2017 DHHS and the Auditor's Office had a Memorandum of Understanding (MOU) approved by the Board (item C-15) whereby DHHS funded 1.0 FTE Fiscal Assistant I/II to be supervised by the Auditor. The Fiscal Assistant I/II was to provide specialized fiscal, financial and accounting office support for DHHS and other county departments. The Auditor in July 2019 chose not to renew the MOU.

While the recent process reviews have identified the need for staff training, this does not necessarily equate to needing additional staff and incurring additional ongoing expenses. Well-trained staff can make independent decisions and process work in a more effective manner, allowing staff to manage a larger workload and management to focus on more complicated matters. In addition, supervisors within departments must make difficult decisions about the work their staff should focus on to ensure the community receives cost-effective services. There are many departments that feel the need for additional staff. In fact, 8.0 FTE were requested by departments through the FY 2019-20 budget process. Of those, none were recommended by the

County Administrative Office and only one position was approved for funding by the Board. The county's budget, as well as the state and national economies, is in a precarious situation, and the addition of staff requires careful consideration as it has long-term impacts on the General Fund. Funding may not allow a position at this time.

Finding 13: *Proper training is lacking in most County Departments regarding the government accounting requirements related to the responsibilities of their office.*

Response: Partially Agree

County staff across all departments are encouraged to participate in, and many have participated in, governmental accounting training, such as those offered by the Government Finance Officers Association (GFOA), California State Association of Counties (CSAC) and GASB. If county departments are lacking the proper training the Auditor's Office, as the subject matter expert on this topic within the county, is the appropriate department to provide additional training, accounting system infrastructure, and appropriate policies and procedures necessary to ensure departments can follow a countywide standardized business practice.

Finding 14: *The Auditor-Controller Office has encountered a lack of cooperation from County staff in its efforts to carry out its legal responsibilities and has raised specific concerns about its working relationship with the Human Resources Payroll Office.*

Response: Partially Agree

County departments work with the Auditor's Office on a multitude of subjects such as account payable and receivable, special districts and payroll for example. County staff across multiple departments have responsibilities that are legally mandated. Legal mandates are not specifically unique to the Auditor function. County staff are attempting to carry out their various legal responsibilities as well as respond to the Auditor and Auditor requests for information. County staff will continue to work with and support the Auditor's legally mandated functions.

Since January of 2019, on multiple occasions, staff from the Auditor's Office, CAO and HR/Payroll have met to address the Auditor-Controller's specific concerns regarding payroll.

Finding 15: *Assets in the County Treasury are not being audited on a regular schedule due to significant lack of staffing in the Auditor-Controller's Office.*

Response: Partially agree

The Treasurer and Auditor have met to develop a process to ensure these audits are performed on a regular basis. The reason these audits may not have historically taken place could be a result of leadership priorities, staff training, staffing resources, or a combination of these reasons.

Finding 16: *There is a high risk of fraud in a number of County departments due to their poor cash handling policies and procedures, improper accounting, and lack of accountability.*

Response: Partially Agree

The county has many safeguards against fraud, including departmental procedures, leadership oversight, quality control mechanisms, Auditor review of transaction processing and external audits. In addition, the county has utilized multiple consultants to review the county's processes. While there is always room for improving or enhancing processes, especially when a new viewpoint or process change arises, no instances of fraud have been detected by the consultants or the external auditors and staff are working to meet the requirements put in place by new leadership in the Auditor's Office.

RECOMMENDATIONS

Recommendation 1: *The Humboldt County Civil Grand Jury recommends the Board of Supervisors ensure that the Auditor-Controller's Office is fully funded so that the staffing and functions of the office can be fulfilled with due diligence. This should be completed by January 15, 2020.*

Response: This recommendation has been implemented, and will continue to be implemented.

Since 2017 the following investments have been made into the Auditor's Office

- Added 1.0 Full-Time Equivalent (FTE) Accountant-Auditor I/II in FY 2018-19.
- Allocated a 1.0 FTE Senior Fiscal Assistant as part of the Payroll Transition on November 6, 2018.
- \$20,000 was allocated to improve technology (wiring) in the Auditor's Office. A November 2018 report by CPS HR noted that this could eliminate as much as one hour per day for each Auditor staff member, which would be equivalent to 2.0 FTE per year.
- In fiscal year 2018-19 and 2019-20, contracted with Robert Sesnon, CPA to provide support in preparing and implementing the chart of accounts at an expense of \$34,000 each year, for a total of \$68,000.

- \$51,000 was allocated to fund a supplemental request for new office furniture.
- \$15,700 was allocated to provide coaching on effective supervisory practices, effective communication skills, change management, county processes and practices, and political considerations in the context of decision making in FY 2018-19 through FY 2019-20.
- \$9,500 was allocated for new computers and training

In order to maintain a balanced and fiscally responsible budget, any request for additional staffing must include a corresponding increase in additional ongoing revenue.

***Recommendation 2:** The Humboldt County Civil Grand Jury recommends that the Auditor-Controller's Office develop and maintain a "timeline" metric for measuring response time and compliance for departments to complete Generally Accepted Accounting Principles (GAAP) entries necessary for financial reporting in preparation for the external auditor. This report should be presented to the Board of Supervisors to direct the County Administrative Office to take the necessary measures to enforce future compliance. This should be completed by October 1, 2019.*

Response: This recommendation will be partially implemented.

The County Administrative Office has taken measures to ensure financial reports are ready for external auditors, including adding the FY 2019-20 budget Schedules 1 through 9 in accordance with the State Controller's County Budget Guide. In addition, the county's chart of accounts is being revised to improve the county's ability to report and track revenues and expenditures. County staff has been informed that "miscellaneous" object codes are no longer acceptable, and inter-agency activities are being recorded differently in order to improve financial reporting.

While it is appropriate for the Auditor's Office to maintain a "timeline," the Auditor's Office alone should not develop the "timelines" metric. The County of Humboldt is a large organization with many external and internal pressures put upon its staff and departments. There is a lot of work to be done by county staff. It often takes years for new staff and department heads to fully appreciate the depth and breadth of these pressures, particularly when it comes to staff from other departments. It is impractical and detrimental to impose a timeline, especially an overly aggressive timeline without proper communication and support, on other departments without fully understanding their work. Collaborating with other departments to develop timelines, and then holding those departments accountable to those timelines is more appropriate.

***Recommendation 3:** The Humboldt County Civil Grand Jury recommends the Board of Supervisors direct the Auditor-Controller's office to conduct an audit of the Human Resources Payroll Office. This should be completed by October 1, 2019.*

Response: This recommendation will not be implemented.

While it would be inappropriate for the Auditor's Office to audit Payroll due to prior conflicts between the two offices, the county is working with its external auditor, CliftonLarsonAllen (CLA), to perform this work. This firm prepares the external audit and is familiar with the county's financial system. In addition, this firm can offer a neutral viewpoint and review of payroll processes.

Recommendation 4: *The Humboldt County Civil Grand Jury recommends the Board of Supervisors review its recent decision to transfer the Payroll responsibilities from the Auditor-Controller's Office to the Human Resources Department. This instruction should be made by October 1, 2019.*

Response: This recommendation will not be implemented because it is not warranted.

The decision to move payroll from the Auditor's Office to Human Resources arose out of extensive review and evaluation and remains the best course of action at this time. As previously mentioned, the county is working with CLA to conduct an audit of payroll, in addition an extra help HR Project Manager has been hired to assist the process of transitioning Payroll from the Auditor's Office to HR.

Recommendation 5: *The Humboldt County Civil Grand Jury recommends the Auditor-Controller's Office review the payroll system master file change log, showing all changes made to the payroll information and ensure it reflects accurate and complete information. This should be completed by October 1, 2019.*

Response: This recommendation has been implemented.

There are many functions within OneSolution that are not active or "turned on." Prior to this report being issued the payroll system master file change log was not active. However, this function has been activated and the Auditor has been given access to the change log.

Recommendation 6: *The Humboldt County Civil Grand Jury recommends the Auditor-Controller's Office analyze payroll registers obtained from the Payroll Department to ensure it has sufficient information for monitoring payroll disbursements each pay period. This should be completed by October 1, 2019.*

Response: This recommendation has been implemented.

As previously mentioned, access has been restored and the Board is supportive of the Auditor's review.

Recommendation 7: *The Humboldt County Civil Grand Jury recommends the Board of Supervisors approve funding for the MAXCAP or equivalent software deemed necessary by the Auditor-Controller. This should be completed by January 15, 2020*

Response: This recommendation requires further evaluation analysis.

The Auditor is free to evaluate system needs and return to the Board with a recommendation for implementation and funding request.

Recommendation 8: *The Humboldt County Civil Grand Jury recommends the Board of Supervisors approve funding and direct the County Administrative Office to hire an accountant in the County Administrative Office to ensure compliance with basic accounting principles as outlined by the State. This should be completed by October 1, 2019.*

Response: This recommendation will be implemented.

The County Administrative Office is evaluating this recommendation and will return to the Board of Supervisors at a later date to request funding and recommend an accountant with whom it will work.

Recommendation 9: *The Humboldt County Civil Grand Jury recommends that the County Administrative Office participate in Cost Allocation Plan training conducted by the State so that the Cost Allocation Plan is properly implemented. This should be completed by October 1, 2019.*

Response: This recommendation has been implemented.

On Aug. 29 the Auditor's Office and two representatives from the State Controller's Office met with representatives from several departments, including the County Administrative Office, to go over a presentation and discuss the cost plan.

In addition, staff have worked with a representative from the Management Research Group (MRG) to provide staff additional Cost Allocation Plan training. A training has been scheduled for Oct. 9, 2019.

Recommendation 11: *The Humboldt County Civil Grand Jury recommends that consultants specializing in organizational communication and team building be retained to train staff and management in the (as a minimum): Auditor-Controller's Office, County Administrative Office, Information Technology Office, and Department of Health and Human Services. This should be implemented by October 1, 2019.*

Response: This recommendation has been implemented and will continue to be implemented.

The county places high value on professional growth and development and will continue to support the training needs of staff. The county has made sizable investments over the last several years in these areas, including sending staff from many departments to annual regional training with staff from Mendocino County, and to the Leading Educating and Developing (LEAD) training in Virginia.

The regional training with Mendocino began in 2012. The last four annual regional training events have included:

- 2019: Communicating with IMPACT, conducted by Patrick Donadio
- 2018: Diversity and Equity training, conducted by Circle Up Education
- 2017: Leadership Principles for Turbulent Times, conducted by Mary O'Hara-Devereaux
- 2016: Transforming Government, conducted by Ted A. Gaebler

The skills and techniques learned at LEAD and other trainings have been brought back and implemented within programs throughout the county, down to the unit level. In addition, DHHS contracts with Aspire Change for full implementation of High-Performance Organizations and the Humboldt Practice Model, which both emphasize communication and teaming. These efforts have led to a focus on leadership at every level and more robust teaming initiatives that cut across the department in every direction. The county is also carrying out multi-department training efforts at its All Hands Training Day, and throughout the year.

Recommendation 12: *The Humboldt County Civil Grand Jury recommends that outside Information Technology training consultants be retained on a regularly scheduled basis to provide ongoing accounting software training to all appropriate departments staff. A regular schedule will be in place by October 1, 2019.*

Response: This recommendation will be implemented.

The county is currently working with OneSolution staff to develop a comprehensive training program. While the initial training is designed to be one-time, staff will continue to evaluate future needs and pursue additional trainings to ensure staff have the tools necessary to utilize the financial system.

Recommendation 13: *The Humboldt County Civil Grand Jury recommends that software training for County department staff be contracted into future software purchases and implementation. This should be completed each time a contract is negotiated and signed.*

Response: This recommendation has been implemented.

This is often a component of new software implementation and will continue to be in future contract negotiations.

Recommendation 14: *The Humboldt County Civil Grand Jury recommends the County Administrative Office reconvene the Accounting Services Improvement Working Group and that it conduct regular meetings to implement consultants' recommendations. This should be completed by October 1, 2019.*

Response: This recommendation will not be implemented.

The Auditor has declined to participate in the ASIWG. The County Administrative Office will continue to work with the Auditor on the desired technique for effectuating change within the organization and will work to support the Auditor in the changes they are making.

Recommendation 15: *The Humboldt County Civil Grand Jury recommends the Auditor-Controller and the County Administrative Office complete the reconciliation of all trust funds in every department within the county. This should be implemented by October 1, 2019.*

Response: This recommendation is being implemented.

Departments have been asked to evaluate their trust funds in anticipation of consolidation and/or elimination of trust funds as recommended by the external auditors and the Grand Jury. Completion of the Chart of Accounts project will allow for this project to move forward. In

addition to eliminating and/or consolidating trust funds, the County Administrative Office will work to include more information on the county's trust funds in future proposed and adopted Budgets.

Recommendation 16: The Humboldt County Civil Grand Jury recommends the Capital Asset Policy that has been adopted by the County be implemented by January 15, 2020.

Response: This recommendation is being implemented.

The Capital Asset Policy defines assets and the categorization of the same, in addition it provides guidelines for tracking assets to safeguard investments. The Auditor is working to implement this policy and inventory all assets to ensure proper reporting of all assets.