

Distrust, Disagreements, Dysfunction

Non-Communication Minus Cooperation Divided by Variable Policies and Multiplied by Missing Reports Equals Financial Chaos

PREFACE

The Humboldt County Civil Grand Jury conducted an investigation of Humboldt County's financial management and practices which are under the authority of the Board of Supervisors, Auditor-Controller, and Treasurer-Tax Collector. This is our Report. Significant deficiencies in the performance of the Auditor-Controller are identified, including the failure to meet legally required deadlines for filing financial reports. On May 2, 2022, the California Attorney General filed a civil lawsuit on behalf of the State Controller against the Auditor-Controller for failure to timely file the financial reports.

Commented [PDK1]: And the County of Humboldt

As the "Watchdog" of local government, the Grand Jury has an obligation to investigate and make a report regarding local government matters of public concern. A less formal inquiry, which does not require a report, may be made of misconduct of a public officer. A Grand Jury may also make an accusation of offenses by a public officer and seek to have that individual removed from office.

This Grand Jury made an informal inquiry into allegations of willful misconduct by the Auditor-Controller. However, sufficient information that would require the Grand Jury to conduct an investigation of these allegations was not received until near the end of the Grand Jury's term when this report was approaching completion. The Grand Jury will continue to inquire about allegations of willful misconduct by the Auditor-Controller and can consider its legal options, up to and including an accusation.

SUMMARY

The Auditor-Controller has been delinquent in filing State and Federal required financial reports. The late reports have caused Humboldt County to lose more than \$2.3 million in non-recoverable funds and also placed over \$9.7 million at significant risk. Hundreds of thousands of dollars have been siphoned off by late fees, penalties, and lost bank and investment interest. The Board of Supervisors have authorized expenditures up to \$971,000 for consultants to assist the County with finance- and personnel-related issues.

Commented [PDK2]: There is no evidence of this claim. The grand jury has failed to provide documentation that corroborates this claim and has failed to provide a breakdown of this amount. Similarly, the County has not provided any evidence or substantiating documentation to prove that any actual funds have been lost or are non-recoverable. The Auditor-Controller certifies claims for reimbursement and none of the claims provided to our office have referenced any loss of eligible funding. The burden of proof that funds have been lost rests on the complainants making this claim and the grand jury repeating it. Ref: "Begging the question" fallacy

The Humboldt County Office of the Auditor-Controller has a history of inefficiency, some of which was addressed in the 2018-2019 Humboldt County Civil Grand Jury Report, which identified multiple issues that remain unresolved. The office also has a history of being understaffed with the workforce using a financial procedures manual that has not been fully updated since the 1980s.

There exist contentious relationships between the Auditor-Controller and the Board of Supervisors as well as with the County Administrative Office, County department

Commented [PDK3]: There is no proof of hundreds of thousands of dollars of late fees or penalties being lost to the County as unrecoverable. In fact, the County is eligible for seeking reimbursement of previously paid fees. Additionally, there is no evidence that the County has "lost" any bank and investment interest due to any action of the Auditor-Controller. The burden of proof rests on the complainants making this claim and the grand jury repeating it. Ref: "Begging the question" fallacy

directors, County employees, other local elected and appointed officials, school districts, and special districts.

Late or unfiled financial reports resulted in State and Federal money delays that disrupted services provided to Humboldt County citizens. The inability to meet required deadlines prompted the State Controller's Office to investigate the County's financial operations. The California Attorney General has filed suit on behalf of the State Controller against the Auditor-Controller and the County seeking financial penalties for failure to comply with financial reporting requirements.

The unfiled reports also affect other local governments. Special districts, the cities of Fortuna, Eureka and Arcata, Fortuna Elementary and High School districts, College of the Redwoods and the Humboldt County Office of Education lost funds or have funds at risk of being lost.

After Karen Paz Dominguez became the Auditor-Controller in January 2019, some improvements were made to update the County's accounting practices, including addressing policies that had not been previously followed. However, progress was hampered due to the Auditor-Controller making changes without giving notice to or consulting with other County departments. Additionally, the Auditor-Controller frequently did not accept or return phone calls and directed all emails to a centralized email box in that office rather than to individual office staff.

The breakdown of communications between the Auditor-Controller and County departments requiring financial services from that office led to many months' delays in the Auditor-Controller posting financial transactions. Cash and investment accounts were not reconciled, creating a possibility for errors and leaving departments without accurate information about their current budgets and bank balances.

The Board of Supervisors is responsible for setting fiscal policy and supervision over the management of County funds. The Board has been slow to respond and exercise its authority to supervise the official conduct of all County officers, particularly insofar as the functions and duties relate to public funds. However, on Nov. 22, 2021, the Board gave specific direction by adopting a resolution directed to the Auditor-Controller regarding the calculation and payment of interest to the General Fund. The Auditor-Controller did not comply.

This Grand Jury conducted an investigation after receiving complaints of financial inefficiencies, ineffective communications, and lack of cooperation with various governmental entities on the part of the Auditor-Controller and the Auditor-Controller's office.

This Grand Jury investigated the Auditor-Controller's intergovernmental relationships and communications and the financial impact of delinquent reporting as well as the disparity between the Auditor-Controller's financial procedures (including the use of specific financial computer software) and those of other County departments. The investigation also notes the Board's responsibility in the County's financial dysfunction

Commented [PDK4]: What funds have been lost? How much? By whom? Where is the evidence of this beyond hearsay? The burden of proof that funds have been lost rests on the complainants making this claim and the grand jury repeating it. Ref: "Begging the question" fallacy

Commented [PDK5]: False. The Auditor-Controller hosted multiple trainings for County departments related to changes made to fiscal processes and developed numerous instructional manuals. The Auditor-Controller communicated with County departments regarding official changes under the control of the Auditor-Controller. Progress was hampered due to the lack of cooperation from County departments to comply with changes and the lack of accounting expertise across County departments.

See documents in folder F11.

Commented [PDK6]: The Auditor-Controller does not calculate interest to be apportioned to the General Fund; the Treasurer-Tax Collector calculates this interest per CA Gov Code

Commented [PDK7]: This Grand Jury did not conduct an actual investigation as that would have required the collection of evidence to substantiate claims made by interviewees and confirmations from independent third parties. Additionally, this Grand Jury did not interview any Auditor-Controller staff or relevant parties such as MGO, CLA, or KOA Hills. This report is merely a regurgitation of repeated claims made by County department heads and their staff of which there has been little to no evidence.

because the Board did not exercise its authority in a timely manner to promote a healthy and functional County work environment.

BACKGROUND

California Government Code (GC) section 26881, describes the Auditor-Controller as a county's "chief accounting officer." The code states, "Upon order of the board of supervisors, the auditor or auditor-controller shall prescribe, and shall exercise a general supervision, including the ability to review departmental and countywide internal controls, over the accounting forms and the method of keeping the accounts of all offices, departments and institutions under the control of the board of supervisors and of all districts whose funds are kept in the county treasury."

Pursuant to GC §25303, the Board of Supervisors shall supervise all county officers, "particularly insofar as the functions and duties... relate to the "assessing, collecting, safekeeping, management, or disbursement of public funds." While the Board has no direct authority to supervise an elected Auditor-Controller, the Board is responsible to see that the duties are "faithfully performed."

The Auditor-Controller's failure to file required reports by their legal deadlines is directly related to unsatisfactory communication and cooperation with other governmental entities. County department administrators and staff reported that clear and accessible resources, including software tools, are needed. They added, communication about any procedural changes must be given by the Auditor-Controller in advance of any changes that will impact the County's public services.

County departments and the Board are at continual loggerheads with the Auditor-Controller because of ineffective communication and procedural changes. No consensus has been reached to resolve these issues. County services are in jeopardy due to overall financial dysfunction exacerbated by a breakdown of interdepartmental trust and communication on the part of the Auditor-Controller.

METHODOLOGY

In preparation for this report, the Humboldt County Civil Grand Jury:

- Interviewed complainants.
- Conducted interviews of elected County officials.
- Conducted interviews of County department heads.
- Conducted interviews of County management responsible for their departments' financial matters.
- Reviewed documents provided by interviewees, including emails and financial documents.
- Accessed sections of California statutes relating to financial management by the Auditor-Controller, Treasurer-Tax Collector, and the Board of Supervisors.

Commented [PDK8]: Opinion and hearsay. The Grand Jury was provided evidence to dispute this assertion. See documents in folder F11.

Commented [PDK9]: Misinformed opinion based upon one-sided interviews. Speculation without fact.

Commented [PDK10]: Incomplete and biased data collection. Only one interview was conducted with the Auditor-Controller in August 2021 and no followup interviews were conducted until one one-hour meeting was held on 5/26/22, after report was already written.

- Accessed sections of the Code of Federal Regulations relating to filing Cost Allocation Plans and Single Audits.
- Accessed the State Controller’s Office website to review reporting requirements and Humboldt County’s status of Financial Transaction Reports and Cost Allocation Plans.
- Conducted internet research related to Generally Accepted Accounting Principles.
- Reviewed letters issued by the California State Controller’s Office, Attorney General, and Department of Finance.
- Observed Board of Supervisors public meetings.

DISCUSSION

Auditor-Controller’s Office

Paz Dominguez was elected as Auditor-Controller in 2018, and assumed office in January 2019, serving before then as the Assistant Auditor-Controller. Paz Dominguez took leadership of an office operating with outdated written, centralized policies and procedures. The office’s financial procedure manual had not been updated since the 1980s. Available information was reportedly kept using antiquated methods, including decades-old sticky-notes, and was interpreted by staff on a case-by-case basis, with no assurance their interpretation was correct. The lack of internal controls stymied the workflow. The office was also affected by recent staff turnover causing a loss of institutional knowledge. A succession plan has not been updated since the 1990s.

There is a common view within Humboldt County government that there have been long-standing staffing issues in the Auditor-Controller’s office. The previous Auditor-Controller had requested more staff before the current one assumed office. Lack of staffing, however, is not unique to this office as there are staffing shortages throughout the County’s workforce.

The established procedure for requesting additional staffing is through the budget process submitted to the County Administrative Office, either requesting specific classifications be authorized or requesting a staffing study be conducted to justify the request. The Auditor-Controller did not submit a budget request for Fiscal Years 2020/2021, 2021/2022, or 2022/2023. The Auditor-Controller did make requests for additional staffing outside of the normative annual budget process which resulted in positions being added.

In March 2020, shortly after the COVID-19 pandemic was declared a public health issue, the Auditor-Controller’s staff primarily worked from home. Working remotely limited communications between the Auditor-Controller’s staff and other County departments primarily to the use of the County’s email system. The physical office was closed to both government and public access.

While the COVID-19 pandemic significantly complicated the operations of County government, many departments and offices, other than the Auditor-Controller’s office, remained open for both public and County employee access. The Auditor-Controller

Commented [PDK11]: Lack of staffing within the Auditor-Controller department has a more significant impact to County operations than lack of staffing in other departments due to the central services function the Auditor-Controller provides.

Commented [PDK12]: The Grand Jury was provided evidence that disproves this assertion. Additionally, there is no “established” or “normative” procedure for requesting staffing positions as evidenced by the consistent flow of staffing requests made to the Board at all of their regularly-scheduled meetings via “Consent Calendar”. Note that Consent Calendar is designed for regular County business. See documents in folder F3.

Commented [PDK13]: The Office of the Auditor-Controller closed its doors to regular traffic before the pandemic began due to unsafe conditions generated by wandering and inebriated individuals as well as certain hostile and aggressive County employees. Additionally, the low staffing in the Auditor-Controller department posed a challenge in greeting frequent visitors who entered the A-C Office by mistake while looking for other offices.

Commented [PDK14]: The only offices that stayed open were the public facing offices such as the jail, juvenile hall, probation, child welfare, etc. All central service departments closed their offices per the shelter-in-place order.

publicly stated that remaining closed was necessary due to that office's under-staffing issues. While Zoom access was available during business hours for County employees, walk-ins were not allowed. As of this report's writing in May 2022, Auditor-Controller employees, along with newly hired employees, have returned to the office; however, the doors remain closed to other County employees and the general public.

Commented [PDK15]: The Office of the Auditor-Controller has offered to meet with County employees and the general public by appointment since before the pandemic.

In December 2020, the Board of Supervisors authorized a contract with Macias Gini & O'Connell, LLP, Certified Public Accountants (MGO) to provide financial advisory services to the County, that included assisting the Department of Health & Human Services (DHHS) with submitting claims to the State. Assistance was to be provided to the Auditor-Controller with reconciling accounts, development of standard procedures and fiscal policies, conducting a staffing study and developing financial strategies to resolve fiscal problems.

Commented [PDK16]: Mostly False. The Auditor-Controller department was developing a procedure manual already and did not request assistance from MGO. MGO was assigned this same task separately by the CAO. The staffing study was assistance to HR, not the A-C in complying with Board direction to HR.

An amendment to the MGO contract was made in May 2021 expanding the services provided to the County. Services provided to the Auditor-Controller's office included continued work on the staffing study, assistance with posting journal entries, bank reconciliations, payroll, taxes, and assistance with Single Audits.

Commented [PDK17]: False. The staffing study of the Auditor-Controller department was not a service provided to the Auditor-Controller department; it was a service provided to HR and to the Board of Supervisors. MGO was never tasked with posting journal entries. MGO was never assigned payroll tasks as assistance to the Auditor-Controller.

The amendment also allowed for services to assist the County Administrative Officer with financial or accounting related tasks to improve internal controls, evaluate business procedures and implement operational efficiencies. Through direction of the County Administrative Officer, MGO would serve as the County's acting Chief Financial Officer until a permanent appointment was made, which occurred in January 2022.

Since 2019 there have been delays in the Auditor-Controller posting financial data. In December 2021, employees with financial experience in other departments were offered to the Auditor-Controller to assist with the backlog. Although the assistance was accepted, some employees were underutilized by being assigned data entry. Within a few days of being assigned, the assisting employees were returned to their own departments without the backlog being significantly improved.

Commented [PDK18]: False and misleading. Delays in posting financial data long predate 2019. Only three departments (DA, SHF, PW) actually provided staff to assist the Auditor-Controller and each department provided 1 staff person. Two of the staff people were tasked with reviewing journals and determining approval or rejection. The third staff person lacked accounting expertise and was assigned to post the journal transactions that were approved by the other two staff people. All three borrowed staff left the Auditor-Controller department due to the growing workload within their own departments, not because the Auditor-Controller rejected their assistance. The backlog was improved.

Required Financial Reports

Financial Transaction Report: The Auditor-Controller is required by GC §53891 to furnish the State Controller's Office (SCO) a report of all County financial transactions during the preceding year. This Financial Transaction Report (FTR) is due seven months following the close of the Fiscal Year, typically Jan. 31. There is no statutory authority to grant extensions for filing this report. The County's FTR for Fiscal Year 2019/2020 was due on Jan. 31, 2021. The FTR for 2020/2021 was due on Jan. 31, 2022.

The SCO sent the Auditor-Controller two letters about the delinquent 2019/2020 report. A third letter from the SCO dated Dec. 6, 2021, notified the Auditor-Controller it had begun an investigation of the County's financial practices and reporting. The SCO investigation's focus is on (1) the failure to file the FTR, and (2) "an internal control review of the county's overall annual financial reporting process." Specifically, the

review by the SCO is to determine if the inability to submit timely financial reports is due to a lack of internal controls and, if so, whether the County has adequate controls to detect and prevent financial errors and fraud.

On Feb. 24, 2022, the Attorney General issued a final demand letter to the Auditor-Controller to come into compliance with the FTR filing requirements within 20 days. On the 20th day, Mar. 16, 2022, the late FTR was filed. The filing was rejected by the SCO on March 21, 2022. On May 2, 2022, on behalf of the State Controller, the Attorney General filed a lawsuit against the County and Paz Dominguez for failure to comply with financial reporting requirements for the annual budget report, as well as the FTR.

Commented [PDK19]: False. See document "2021-04-15 SCO Confirmed Initial Review of 19-20 FTR – Not Rejection"

The County and Paz Dominguez are being sued in the first cause of action for failure to comply with GC §29093, which requires a copy of the County's adopted budget be filed with the SCO no later than December 1 of each year. It is alleged that Paz Dominguez did not file the required copies for Fiscal Years 2020/2021 and 2021/2022. An extended deadline was given by the SCO; however, incomplete budget schedules were submitted by Paz Dominguez with missing information. The Attorney General is seeking a court order for the County to pay a forfeiture of \$1,000 for Paz Dominguez failing to file the 2020/2021 budget and \$1,000 for her failure to file the 2021/2022 budget with the SCO.

Commented [PDK20]: False. The CAO submitted budgets to the SCO. See document "2022-03-21 CAO Submitted Budgets to SCO - Not A-C"

In a second cause of action, Paz Dominguez is being personally sued by the Attorney General for failure to comply with Financial Transactions Reporting requirements by failing to timely file the FTR for Fiscal Years 2019/2020 and 2020/2021. The lawsuit alleges that Paz Dominguez was notified by the SCO on Nov. 6, 2021, concerning the 2019/2020 FTR and on Feb. 26, 2022 that the FTR was delinquent. The SCO contacted Paz Dominguez by email on June 1, 2021, and Paz Dominguez offered to complete the report using unaudited information within two weeks. The FTR was submitted on March 16, 2022.

The lawsuit alleges the 2019/2020 FTR was rejected by the SCO because "Paz Dominguez submitted her FTR with unaudited data, and falsely stated that it was prepared by the 'AG,' and 'Under the Direction of the AG.'" The Attorney General is seeking a court order for Paz Dominguez to pay a forfeiture of \$5,000 for the late filing of the 2019/2020 FTR and \$5,000 for the late filing of the 2020/2021 FTR. The Attorney General is also seeking a court order to compel Paz Dominguez to perform her mandatory statutory duties.

Commented [PDK21]: Considering a response from the Auditor-Controller regarding this open case is not due until June 13th, this appears to be an effort to capitalize on allegations and present them of evidence of wrongdoing prematurely thus denying the Auditor-Controller fair representation.

Single Audit: Funds received from the Federal Government are either advance payments or reimbursements for programs and services provided by the County. The Code of Federal Regulations (CFR) requires the Auditor-Controller file an audited financial statement with the State Controller's Office, referred to as a Single Audit, by Mar. 31 for the previous fiscal year to verify the funds were spent as authorized.

Each year, Humboldt County receives millions of dollars from the Federal Government and the State of California to administer a wide variety of local projects and programs including roads, law enforcement, social services, and public health. While producing a

Single Audit is a Federal requirement, it is also used by the State to certify financial accountability for funds received from the State.

For the County to request and receive this funding, a Single Audit must be prepared and certified by an independent Certified Public Accountant (CPA). The audit confirms the financial operations, financial condition, and cash flow of the County are properly accounted for, calculated, and reported. To prepare for an audit, an Auditor-Controller needs complete financial information supporting expenditures reported to the Federal Office of Management and Budget (OMB) via the SCO. There were delays in collecting the information which Paz Dominguez attributed to deadline extensions, power outages, staffing changes and COVID-19.

When a Single Audit is received by the SCO, the report is filed with the OMB1. The Fiscal Year 2019/2020 Single Audit was due on Mar. 31, 2021, although the date was extended to Sept. 30, 2021, due to the pandemic. Because the Auditor-Controller did not transmit required financial information, including account balances, the CPA was unable to complete the audit. The Single Audit had not been submitted to the SCO as of the writing of this report. According to County administrators, the funds being accounted for in the 2019/2020 Single Audit amount to \$93.7 million. The Single Audit is an accounting for how the funds were spent by the County. The due date for the Fiscal Year 2020/2021 Single Audit has been extended from Mar. 31, 2022 to Sept. 30, 2022.

Commented [PDK22]: The required financial information was not provided to the Auditor-Controller. The Auditor-Controller delegated authority to the CPA to gather the information directly from the departments and they, too, were hampered with lack of timely responses or adequate documentation. This took place during a public Audit Committee Meeting in 2021.

Commented [PDK23]: How was this amount calculated? What funds is this supposedly accounting for?

Cost Allocation Plan: According to the CFR, to support requests for and receipt of Federal funds, a plan must be prepared and submitted before the funds are distributed. The CFR provides the method of justification through Cost Allocation Plans (CAP) and Indirect Cost Proposals.² The U.S. Department of Health and Human Services (HHS) is designated as the agency to approve CAPs and has delegated the California State Controller's Office to act on behalf of HHS in cost plan matters.

The State Controller's Office published the *Handbook of Cost Plan Procedures for California Counties* to provide instructions and requirements for a CAP³. Costs are defined as direct costs which include the salary and benefits of County employees who are assigned to work on the award projects, plus materials and other expenses. Typical examples of central services include computer services, transportation services, insurance, and fringe benefits. Central services also include general accounting, personnel administration, purchasing, and similar activities and support functions necessary to sustain the County's direct effort to administer a grant program.

Central service costs are referred to locally as Internal Service Funds. These costs are distributed among County departments as part of their operational budgets. The Auditor-Controller is responsible for transferring funds within or between departments' budgets. Without an approved CAP authorizing the release of funds to the County, ISF transfers cannot be made thereby reducing funds available to departments.

¹ 2 CFR §200.512

² 2 CFR §200.416

³ sco.ca.gov/county_cost_allocation, accessed March 15, 2022

All cost plans must be submitted to the SCO at least six months prior to the fiscal year for which the plans are to be used. Humboldt County CAP filings for recent years are as follows:

- FY 2019/2020 was due Dec. 31, 2018
 - **Filed late on May 6, 2020**
- FY 2020/2021 was due Dec. 31, 2019
 - **Filed late on May 31, 2021**
- FY 2021/2022 was due Dec. 31, 2020
 - **Has not been filed with the SCO as of the completion of this Grand Jury investigation**
- FY 2022/2023 was due Dec. 31, 2021
 - **Has not been filed with the SCO as of the completion of this Grand Jury investigation**

Commented [PDK24]: This was due to delays caused by the CAO related to the forging of an actuarial report that was submitted to the SCO that resulted in rejection.

Commented [PDK25]: This was due to the numerous changes necessary following the SCO's review of the delayed 19/20 cost plan.

Commented [PDK26]: This cost plan was submitted to the SCO on 5/9/22, prior to the Grand Jury completing their "investigation". Had they interviewed anyone in the Auditor-Controller department, they would have known this.

The relationship between a CAP and Single Audit requires each to support the other. The CAP is an approved plan for how money is to be spent. The Single Audit reports how the funds were spent for that CAP. Timely filing of the Single Audit is required to assure the Federal awarding agency of the County's financial stability. Remedies for noncompliance include temporarily withholding cash payments, disallowance of all or part of the cost activity, wholly or partly suspending or terminating the Federal award or withholding further Federal awards for the project or program.⁴

As a result of the Fiscal Year 2019/2020 Single Audit not being filed on time, the County was unable to claim certain reimbursements from the State and Federal governments, thereby suffering considerable non-recoverable financial losses. In addition, substantial reimbursements are currently at risk of being lost.

Commented [PDK27]: There is no evidence that there have been non-recoverable financial losses.

As of the writing of this report, the CAP for Fiscal Years 2021/2022 and 2022/2023 are past due, putting the County at a substantial risk of losing future grants and reimbursements from the State and Federal governments. The negative financial impact of projected delayed, disallowed, or suspended funds has not been calculated. Actual and potential losses are discussed below in Non-recoverable Lost Funds and Funds At Risk.

Commented [PDK28]: False. The 2021/2022 CAP was submitted to the SCO on 5/9/22.

County Expense Claims: The County Expense Claims (CEC) system enables California County Welfare Departments (CWDs) to obtain billions of dollars in state and federal reimbursement for costs incurred in the administration of public assistance programs. Data from the CEC system is used to meet federal reporting requirements, process payments to CWDs, and to invoice other state departments for funding⁵. Welfare programs are state-supervised, but county administered. As part of this regulatory process, California Department of Social Services (CDSS) sets county standards for obtaining state and federal reimbursement for costs incurred in administering these

⁴ 2 CFR §200.338

⁵ <https://www.cdss.ca.gov/inforesources/cccris> accessed March 20, 2022

mandated programs. CECs are the vehicle used by counties to obtain this type of reimbursement⁶.

The Auditor-Controller met with the County's Department of Health & Human Services (DHHS) to discuss the process of submitting CECs. Due to the large amount of information required to be submitted, the Auditor-Controller agreed to accept less detailed summary sheets of the expense claims. Subsequent to this, DHHS was informed the summary sheets were no longer acceptable and a change was necessary. When the Auditor-Controller rejected the summary sheets, she did not identify the changes that were needed. The Auditor-Controller did not respond to emails requesting a meeting and eventually stopped signing the claims. By neither meeting with the DHHS nor agreeing to review the department's documentation to establish what was acceptable to the Auditor-Controller to certify the claim, DHHS was unable to file the CECs on time. CECs go into a statewide claim for local governments which are submitted in one package to the Federal government. Following this delay, the Auditor-Controller ultimately signed and submitted the CECs as required and the issue was resolved with the receipt of funds. According to DHHS, the County regularly receives \$15-20 million quarterly from CECs.

Commented [PDK29]: False. Document gathering in progress.

Redevelopment Property Tax Trust Fund Distribution Report: In a letter dated Feb. 11, 2022, the California Department of Finance (DOF) notified the Auditor-Controller of failing to meet the Health and Safety Code⁷ (HSC) requirement of providing a report regarding the distribution of property tax for successor redevelopment agencies. Absent the report, DOF is unable to calculate and approve the administrative cost allowance, as well as the city loan repayment amounts for the cities of Eureka, Arcata, and Fortuna for Fiscal Year 2022/2023. This impacts a city's ability to dispose of assets and properties of a former redevelopment agency including redirecting funds to school districts.⁸

County Financial Operations

The authority and responsibility for County financial management is divided between the Board of Supervisors, County Administrative Officer, Auditor-Controller, and Treasurer-Tax Collector. While the Auditor-Controller and Treasurer-Tax Collector have independent authority granted by the Government Code, it is the responsibility of the Board to supervise the official conduct of all county officers, particularly insofar as the functions and duties of such county officers relate to assessing, collecting, safekeeping, management, or distribution of public funds⁹.

County Administrative Officer and Auditor Controller: The Board appoints the County Administrative Officer (CAO) to carry out Board decisions, and make sure policies and procedures are implemented and executed. While the CAO has no direct authority over the Auditor-Controller, the CAO is to supervise, in cooperation with the Auditor-

⁶ <https://www.cwda.org/formsguidelines/county-expense-claim-guidelines-and-procedures> accessed March 20, 2022

⁷ Health and Safety Code §34183(e)

⁸ Redevelopment Agencies, RDAs, were ended by statute in 2012

⁹ GC §25303

Controller, the preparation of the County's annual budget and exercise continuous control over administration of the budget and oversee expenditures to assure that all expenditures are necessary and proper and approved appropriations are not exceeded.¹⁰

The ability to work cooperatively has been obstructed by a breakdown of trust and communication between the CAO and the Auditor-Controller, dating back to when the Auditor-Controller was the Assistant Auditor-Controller. Conflicts have arisen over delays in posting financial data, participation in meetings and public release of information.

Commented [PK30]: False. Document gathering in progress.

The Board is responsible for setting fiscal policy and supervision over those managing County funds. The Auditor-Controller is responsible for general supervision over the method of keeping the accounts. It is necessary that an effective liaison be established between these elected officials. In carrying out the elected Board's decisions, the CAO is delegated this responsibility. Communication and cooperation must be two-way. The CAO desired a direct line to the Auditor-Controller to facilitate communication and prompt responses. The Auditor-Controller stopped taking phone calls and directed all communication be done by email to allow her staff to focus on their work without interruptions. Emails inquiring about the status of requests made months earlier often received no response.

The Board is responsible for the administration and management of the County's business practices; however, they did not respond in an effective manner to information provided to them over a two-year period regarding dysfunction on many levels between the County Administrative Office, Auditor-Controller, other elected officials and department directors.

Interlaced throughout this Grand Jury report, evidence is presented that significant delays occurred between departments in providing, receiving, and accounting for financial transactions. County departments had to adapt to changes in procedures and reporting requirements instituted by the Auditor-Controller. Conflicts happened between the CAO, Auditor-Controller, and employees responsible for financial management in the departments. Each of these parties, at various times, made presentations to the Board, reporting dysfunction and making complaints of lack of cooperation and communications.

The CAO has the responsibility for supervision of County affairs, as charged by the Board, specifically including supervising all departments for whom the Board adopts an annual budget.¹¹ Where there is conflict between the Auditor-Controller and a County department, the CAO has an obligation to supervise that department to resolve the conflict, including requiring financial documents be filed within the timeframe and in the

¹⁰ Humboldt County Codes §241-6(d) and (e)

¹¹ Humboldt County Codes §241-6(b)

manner necessary for the Auditor-Controller to meet mandated deadlines for filing reports.

In 2021, the Board adopted a resolution to create an Audit Committee to assist with oversight of the integrity of financial statements, independently oversee the audit of financial statements, serve in an advisory capacity to the Board and act as a liaison between the County and its audit firm. The Auditor-Controller, County Administrative Officer and Treasurer-Tax Collector were designated to serve on the committee in an advisory capacity. The underlying purpose of the committee became one to compel departments to talk with each other in a constructive manner.

Auditor Controller and Treasurer/Tax Collector: A formal relationship between the Auditor-Controller and Treasurer-Tax Collector is established by various sections of the GC and Revenue and Taxation Code (RTC). Relevant sections include the following:

1. GC §26905 requires that by the last day of each month, the auditor shall reconcile the cash and investment accounts as stated on the auditor's and treasurer's books as of the close of business of the preceding month. This investigation found that each of these separately elected officers is responsible for reconciling various accounts managed by their office. There is a current disagreement regarding which office is responsible for maintaining compliance with this code section.

During this Grand Jury's investigation, it was learned the reconciliation requirements had not been met since July 2019. According to the Treasurer-Tax Collector's office, with transactions of more than \$5 million per day managed by that office, failure to reconcile cash and investment accounts created a general lack of transparency. This can cause General Ledger posting errors, including posting of bank transactions or debits and credits to funds which may be over- or understated, thereby compromising the integrity of financial statements. MGO is assisting the Auditor-Controller with the reconciliations.

Commented [PDK31]: False. Document gathering in progress.

2. Revenue and Taxation Code §5151 requires the Treasurer-Tax Collector notify the State Controller of the "county pool apportioned rate" and how that rate was determined, no later than 90 days after the end of each fiscal year.

Commented [PDK32]: Partly false. Document gathering in progress.

The Treasurer-Tax Collector was not able to apportion interest for any Fiscal Year 2020/2021 quarter due to the delays in cash reconciliations for which the Auditor-Controller is responsible. As of Sept. 30, 2021, the Treasurer-Tax Collector was unable to make the required report to the State Controller's Office. The report for Fiscal Year 2019/2020 was filed nine months late in May 2021.

Commented [PDK33]: False. Document gathering in progress. See existing documents in folder F7 & F8.

These interest apportionments are funds which school districts and special districts rely on to develop their budgets to pay for operations. To correctly apportion interest, quarters must be closed on time, and all transactions posted to each different fund so the Treasurer-Tax Collector can take an average daily balance to determine apportionment. If the quarter is not closed, there is the risk of lost accuracy.

3. GC §53645 requires interest on County funds held by the treasurer be calculated and paid quarterly. The average daily balance required for computing interest cannot be calculated until the Auditor-Controller posts and reconciles all transactions for the quarter.

Once calculated, the interest must be distributed among the monies held in the treasury pool, including for schools, special districts, and the County's General Fund. On Nov. 22, 2021, the Board of Supervisors adopted a resolution to address interest which had not been distributed. By memorandum to the Board, the CAO informed the Board that the General Fund had not received interest revenue since the fourth quarter of Fiscal Year 2019/2020 as required by GC §53647.

The interest for Fiscal Years 2018/2019 and 2019/2020 impacting the General Fund were reported by the CAO to be over \$1 million on the date of the resolution. Interest not apportioned to the General Fund for Fiscal Years 2020/2021 and 2021/2022 was estimated by the CAO to be \$625,000. Other beneficiaries of the treasury pool interest have been proportionately affected.

By resolution, the Board authorized and directed the Auditor-Controller to comply with GC §53647 by directing the interest be deposited into the General Fund. As of the writing of this Grand Jury report, the Auditor-Controller has not complied with the resolution.

4. GC §27008(a) states the treasurer shall not receive money into the treasury or for deposit unless it is accompanied by the certificate of the auditor as a receipt. However, the auditor and treasurer may establish an alternate control procedure for the treasurer to receive or deposit money.

On July 1, 2019, the Auditor-Controller delivered a verbal notice to the Treasurer-Tax Collector's office that the Auditor-Controller would no longer provide receipts for deposits. Since then, the Auditor-Controller and Treasurer-Tax Collector have not agreed to an alternative control procedure.

Financial Procedures and Inter-Departmental Communications

Paz Dominguez assumed leadership of an office without current written, centralized policies and procedures. Relationships with other County departments became problematic when the Auditor-Controller made unannounced changes to financial procedures and severely curtailed communications. Her lack of communication with financial managers in the departments resulted in a significant amount of information being unavailable which obstructed the independent CPA's efforts to complete the Fiscal Year 2019/2020 Single Audit.

ONE Solution, the accounting system used by Humboldt County, was upgraded in 2020 to Finance Enterprise. Accounting software upgrades available in Finance Enterprise, although replete with workflow issues, were implemented by the Auditor-Controller. Significant improvements included the development of a Job Ledger to track and report financial transactions and the use of a '10-digit org key,' a function in the accounting

Commented [PDK34]: False. See documents in folder F11.

Commented [PDK35]: What?

software, which was adopted as part of modifications to the chart of accounts. Additional improvements included the use of electronic fund transfers which reduced the need for printed checks; a method of reporting in the Job Ledger to show COVID-19 related expenses in 2020; and the purchase of laptop computers for employees to use while working remotely during the pandemic. Enforcing existing Board-approved policies that had previously not been followed became a focus of the Auditor-Controller. Following accepted accounting practices, Paz Dominguez began requiring approved service contracts and itemized invoices from departments and vendors.

County employees, referred to as finance managers in this report, are those managers responsible for the oversight and supervision of financial and accounting activities within their own department. Specific titles vary between departments.

Early in 2019, these finance managers were able to communicate sufficiently with the newly elected Auditor-Controller, establishing good relationships, collaborating, and making improvements together. Finance managers agreed many changes were needed to improve the system; however, the methods used to make modifications became a significant challenge. Finance managers reported publicly to the Board of Supervisors and to this Grand Jury that the Auditor-Controller made some changes; however, managers have reported these changes were made without prior notice or a request for feedback.

Commented [PDK36]: False. See documents in folder F11.

Chart of Accounts Modifications

Multiple procedural changes were identified by finance managers as being necessary, specifically those relating to a revision of the chart of accounts. The Auditor-Controller presented a non-specific suggestion of changes to the chart of accounts, but there was no indication of what they would be. Ultimately, the revision was never completed.

Commented [PDK37]: False. See documents in folder F11.

Intranet instructions were posted by the Auditor-Controller; however, finance managers reported they were only aware of instructions relating to year-end closing processes and some new forms. No other notices of changes were provided on the Intranet. Instead, the modifications were announced through handouts, emails, or by the Auditor-Controller not posting journal entries and requests for payments due to a lack of proper verification.

Commented [PDK38]: There is no obligation to use the intranet nor does the intranet always work. Providing information via handouts, training materials, and e-mails is perfectly appropriate.

The Auditor-Controller made modifications within the existing chart of accounts that had significant negative impacts on other departments. The number of object lines (itemized data or codes in a chart of accounts) which show details was reduced. Without sufficient notice to impacted departments, some object lines were deactivated. Instances happened where modifications were made, but were communicated to a line staff member instead of the manager overseeing their department's accounting units. DHHS, for instance, prepared an extensive spreadsheet detailing the object codes they were using and submitted it, but did not receive a response; however, the Auditor-Controller continued to make changes.

Commented [PDK39]: False. See documents in folder F11. Additional document gathering in progress.

Finance managers recommended implementing modifications to the chart of accounts only at the beginning of a fiscal year, so the adjustments would happen during budget

development. Developing new object lines throughout the year is an accounting necessity; however, eliminating lines mid-fiscal year results in lost data along with the ability to track entries. Due to the Auditor-Controller combining transaction types and eliminating account lines that showed details, there was a loss of accounting data. This led to DHHS losing the ability to claim expenses which occurred in the 2019-2020 audit of the Public Health Emergency Response.

Commented [PDK40]: False. See documents in folder F11.

Commented [PDK41]: False. Document gathering in progress.

During 2019, departments made some changes using guidance and recommendations given by the Auditor-Controller, but ultimately their submissions were rejected. Departments were informed they could not use the specific codes that had been developed based on the Auditor-Controller guidelines. Finance managers requested the Auditor-Controller meet to discuss how the changes in procedures would affect the departments and what they would need to do to be in compliance. Finance managers sent emails, but communications had started to break down and they were not receiving responses, leaving them uncertain as to what would change next. Departments that had developed internal tracking mechanisms had to modify procedures in the middle of the fiscal year in addition to the regular duties staff were performing.

Commented [PDK42]: False. This was caused by the 2018 Interim Auditor-Controller making commitments to DHHS about object codes that she did not follow through on or communicate to the elected Auditor-Controller. Document gathering in progress.

Commented [PDK43]: False. Document gathering in progress.

In an attempt to establish effective communications and cooperation between departments, a request was made by financial managers to develop a *change management process* that could be used when the Auditor-Controller wanted to make changes to the chart of accounts. This would allow the Auditor-Controller to identify the changes and help the departments analyze what needed to be done at the department level. This change management process was first recommended in 2017 and again in 2018 when Paz Dominguez was Assistant Auditor-Controller. Such a process has never been developed.

Commented [PDK44]: False. Document gathering in progress.

Communications

Lack of effective communication throughout local government was a common theme found during this Grand Jury's investigation. During this Auditor-Controller's first year in office, she effectively stopped accepting and returning telephone calls from other County departments, thereby cutting off direct relations with finance managers.

Commented [PDK45]: False.

Since late-2019, departments have been instructed by the Auditor-Controller not to send emails directly to her. All emails, including those from the CAO, department heads, and finance managers were to be sent to the Auditor-Controller office's centralized email. This email allowed more than one employee to view and respond to an inquiry; however, since the email was not managed by a specific individual and extended time would go by without a response, many County personnel regard this general email as a "black hole."

Commented [PDK46]: False and misleading. Document gathering in progress.

Commented [PDK47]: Hearsay based on opinion.

Some requests to create object lines or codes in the chart of accounts went unanswered. Without these codes, requests for corrections were repeatedly needed. Neglecting to perform these basic functions made for additional work for the staff of County departments and the Auditor-Controller's office. Without clear dialogue, departments have taken staff time to create lists of requests that have been submitted but have gone unanswered.

The Auditor-Controller has publicly stated the County does not have employee leave policies resulting in unearned wages and benefits being given to employees. Comprehensive leave policies actually do exist in the collective bargaining agreements between the County and each bargaining unit. The Auditor-Controller's misinterpretation of existing policies within individual departments led to payroll confusion regarding several Sheriff's Office employees. Further, the Auditor-Controller had made a change to the reporting requirement, but did not communicate it to the department. As a result, for instance, a terminated employee still received a full paycheck.

Commented [PK48]: False. Document gathering in progress.

Posting Financial Transactions and Reconciling Accounts

Journal Entries: Generally Accepted Accounting Principles (GAAP) are best defined as standards or methods for presenting financial accounting information. A key element within a financial system is the ability to make adjustments or corrections to prior entries in the system. A simple example would be requesting a change be made in a cost allocation (distribution) from one budget unit to another, splitting a cost between budget units or making a correction to a prior entry. An example for payroll could be an employee in a general budget category assigned to a task that must be allocated to a special budget line for reporting to a state or federal grant. If the original entry has not been made to the specific or correct budget line, a request must be made to correctly identify which budget unit the cost must be allocated to. This request for change is called a journal entry.

An essential function of accounting is to post journal entries during the same fiscal reporting period, be that monthly, quarterly, or annually, during which the activity occurred. When journals are not posted in a timely fashion, departments lack accurate information to determine budgeted funds and bank balances. When not posted within the same fiscal year, a year-end report must be able to accrue funds received in one year back to the correct fiscal year. Otherwise, there is an under reporting for the previous year and an over reporting in the current year.

Access to making changes in Finance Enterprise is restricted by the Auditor-Controller in order to maintain the integrity of the system. For journal entries and other financial transactions, departments enter data into a spreadsheet and then transmit the spreadsheet to the Auditor-Controller's office. That office then enters the information into another file which is uploaded into Finance Enterprise. Although the Auditor-Controller eliminated the need for paper documents to be submitted, the ability to submit department financial data using Finance Enterprise is not available. For example, departments can view information in Finance Enterprise, but are limited in their ability to generate a bill or run a report in the system. Departments use an antiquated system of tracking their revenues and expenses on spreadsheets resulting in a duplication of effort by the Auditor-Controller's staff.

In recording cost shifts from one budget unit to another within their own department, finance managers used the method required by an older software system. Following the County's adoption of Finance Enterprise, finance managers were directed by the Auditor-

Controller to use the new protocol. At that time, the Auditor-Controller began asking for memorandums of understanding, contracts, or rate sheets to justify expenses on the journals and to update the County's financial data base. Requesting justification for financial transactions is a standard accounting practice for controllers; however, this resulted in further modifications for internal transfers. Additionally, when this new protocol was established, finance managers were not informed that these documents were now required for specific backup.

Commented [PDK49]: False.

Given that the Auditor-Controller's office was operating with outdated procedures, Finance Enterprise issues were compounded by some members of the staff accepting journal entries as submitted while others insisted on changes. Corrections would be made to a journal submitted and accepted for one quarter but the following quarter the same submission method would be rejected. This inconsistent application of procedures caused confusion and delays in making journal entries.

Commented [PDK50]: False. Additional document gathering in progress.

In the two years affecting Fiscal Year 2019/2020 and Fiscal Year 2020/2021, the Auditor-Controller stopped processing journals for months at a time. The Auditor-Controller did not begin working on first-quarter journals until approaching the fourth quarter. Finance managers reported that when a department made a mistake in the first quarter and unknowingly continued to follow the same process for subsequent quarters, the errors were compounded. This was not a matter of the journal entries being rejected. It was known to finance managers that no action had been taken on a specific journal, since any posted activity would display in Finance Enterprise. When follow-up was done, departments were told the office was overwhelmed with work responsibilities and to discontinue sending follow-up emails to the journal email box.

Commented [PDK51]: False.

Commented [PDK52]: Only partial information included here. Document gathering in progress.

Reconciling Accounts: The timely accounting of financial transactions throughout the County's fiscal environment is essential to maintaining accurate records in order to reconcile accounts, both as needed and as annually required. For more than 10 years, the County's independent auditor has recommended that reconciliations of significant accounts be performed at least once a year to ensure accuracy of the General Ledger. To accomplish this, it is necessary for each department's financial transactions to be submitted to the Auditor-Controller before the close of each month. Thereafter, the Auditor-Controller must act promptly to reconcile the transactions. Since the Auditor-Controller has no direct authority over County departments, supervision of departments by the CAO to mandate adherence to reporting deadlines is required.

To support the Auditor-Controller bringing the County's financial status current, the Board of Supervisors approved the second contract with MGO to assist with posting journal entries, reconciling various accounts and cash. When MGO began assisting, the process was improved with MGO accepting information and approving the journal entries.

Commented [PDK53]: This is partial information.

School Districts and Special Districts

Redevelopment Agency (RDA) Funds: The City of Fortuna receives Redevelopment Agency (RDA) funds from the State that, pursuant to a 1989 agreement, are redirected to

four local education agencies (LEAs): Fortuna Union High School District (FUHSD), Fortuna Union Elementary School District, Redwoods Community College District, and Humboldt County Office of Education (HCOE).¹²

The State of California allocates school districts an amount of funds per student based on attendance. One source of funding is local property taxes. If local property taxes are not enough to meet the amount allocated by the State per student, the State makes up the difference with an allotment to the school district.

The Auditor-Controller is required to file school district tax revenue reports with the California Superintendent of Public Instruction. For Fiscal Year 2018/2019 and Fiscal Year 2019/2020, the Auditor-Controller reported RDA funds as property tax revenue causing secured taxes to be overreported and state aid to the four LEAs to be underpaid by \$475,304. RDA funds are not revenue sources subject to deduction in that they are not property taxes and should be excluded from the tax reports.¹³

LEAs are also entitled to an annual Inflation Pass-Through of two percent. The Auditor-Controller incorrectly reported this as property tax for Fiscal Year 2018/19 and Fiscal Year 2019/20 causing secured taxes for the LEAs to be overreported. In addition, the amount reported for Fiscal Year 2019/20 was inaccurate. HCOE hired the consulting firm Public Economics, Inc. to prepare a comparative evaluation of these accounting and reporting practices to verify the pass-through payments to the LEAs.

The use of Inflation Pass-Through funds is restricted to specific uses by the school districts. In a June 9, 2021 email to MGO, the Auditor-Controller indicated she was unable to determine if the amounts were being used for those specified purposes and requested written verification. These issues were resolved when corrections to the property taxes and pass-throughs were filed on Sept. 30, 2021.

As a result of the Auditor-Controller not filing the Inflation Pass-Throughs correctly, FUHSD suffered a cash shortage of \$197,963. This necessitated the District to obtain supplemental funding through a short-term bond requiring payment of fees and interest. When the funds were received by the County, the Auditor-Controller did not notify FUHSD that the bond funds had been received. Eventually, HCOE requested the status of the funds and then notified FUHSD the funds were available.

Transfer of Funds from Treasury Accounts: Regular delays by the Auditor-Controller in transferring funds from treasury accounts to school and special district accounts have put payrolls at risk. In dealings with the Auditor-Controller, school and special districts have inappropriately been asked for substantiation for district fund draws. The responsibility to determine expenditures are legitimate and that there are sufficient funds available to cover them rests with each school district's board of trustees or special district's board of directors, not the Auditor-Controller.

¹² (Former) Health & Safety Code §33676
¹³ Ed Code §§2575(c), 42238.02(j)(6) and 42238(c)(6)

Commented [PDK54]: Inaccurate representation of facts / mischaracterization of events. Document gathering in progress.

Commented [PDK55]: Inaccurate representation of facts / mischaracterization of events. Document gathering in progress.

Commented [PDK56]: False. Document gathering in progress.

Non-recoverable Lost Funds and Funds At Risk

During the course of this investigation, verifiable information was provided to this Grand Jury of non-recoverable funds lost or paid out by the County due to nonpayments and reports not submitted on time by the Auditor-Controller. Additionally, significant funds have been and continue to be at risk of loss. When these funds are lost or delayed, the County must rely on the General Fund to continue operations covered by these funds. The result is a loss of discretionary funds needed to hire employees, pay salaries, and meet operational costs, as well as being a major source of interest.

Approximately \$2.3 million lost: Because the Fiscal Year 2019/2020 Single Audit has not been filed and the Financial Transaction Report and Cost Allocation Plans were filed late or are overdue for Fiscal Year 2020/2021, the County has permanently lost funds. These include mandated welfare expense claims, CAP reimbursements, grant funding, public health claims, Public Works project funds and Planning and Building grants.

Other funds paid out or lost include fees and penalties to the IRS for late payroll tax reports and payments, the aforementioned interest to the General Fund and late fees for invoices. Payroll for the County, Fortuna Elementary and High School, College of the Redwoods, and the County Office of Education have been placed on "secured funding" by US Bank. The bank considers the County to be a potential financial risk, which results in lost interest. Late fees paid to CalCard, the County's credit card used by employees, are substantial. Use of CalCard was also suspended when payment was 96 days past due.

Approximately \$9.7 million at risk: The late Single Audits, Financial Transaction Reports and Cost Allocation Plans have placed Federal and State funds at risk. A partial list includes: Supportive Housing Americans with Disabilities Act grant; Redwood Rural Health Clinic COVID-19 modification grant; a hold placed on WorkForce Development cash; Public Health CAP reimbursable charges; future interest related to payroll; future interest related to Mental Health Services Act funding coupled with a percentage of funds being withheld until a report is filed; and CalTrans funds. In addition, CalTrans is also currently withholding approval of new projects and any funding which requires the County provide an audited financial statement.

The County is currently not eligible for Federal grants due to noncompliance with the Single Audit filing requirements. County administration advised the Grand Jury that the County is not currently applying for affordable housing, community development, and similar grants that have regularly supported programs in the past. The County has received \$13 million in American Rescue Plan Act funds, but an additional \$13 million is at risk.

Non-Federal funds at risk are future interest earnings related to disbursements of Mental Health Services Act funding; County and HCOE payroll; and the County's General Fund. Overpayment to employees for payroll and benefits dating back to 2021 is not currently being recovered and the County is subject to IRS penalties for late filing of 1099-G forms.

Commented [PDK57]: Again, there is no evidence of this. This Grand Jury is regurgitating talking points given to them by interviewees and has failed to provide any corroborating evidence of this repeated claim.

Commented [PDK58]: Is there any proof of this?

Commented [PDK59]: Where is the evidence of this?

Commented [PDK60]: Partial information.

Commented [PDK61]: The Auditor-Controller tried to prevent this but CAO did not provide adequate IT support to implement this. The CAO also failed to educate its Economic Development staff on this requirement prior to their issuance of reportable grants.

Extraordinary Administrative Costs: The County is paying for financial consulting services, primarily to assist the Auditor-Controller, in addition to the County Administrative Officer and the Department of Health & Human Services. The original contract with MGO was for \$250,000 with an amendment for an additional \$500,000. An additional contract for up to \$221,000 was made with Koa Hills Consulting to assist with payroll. These contracts could cost up to a maximum total of \$971,000. A further cost will be incurred when the County is billed for the investigation by the State Controller's Office.¹⁴

Decentralization

Paz Dominguez has made multiple public references to the financial services of the County being decentralized. Financial services within all levels of government in California are decentralized, that is, the functions of budget management and control are disbursed to multiple sub-units or departments. Typically, in a California county, the county's budget is developed by the CAO in cooperation with the Auditor-Controller and adopted by the Board of Supervisors. Each department within the county is assigned a budget to work within during the fiscal year. The budget contains the financial authority within which the department operates.

In very simple terms, the function of the Auditor-Controller in relation to budget expenditures is, as the auditor, to ensure expenses are authorized by the budget and correctly reported by the department. If so authorized and reported, the Auditor-Controller then fulfills the controller function of issuing payment or transferring funds.

This system of financial functionality relies on each department employing personnel with financial knowledge to administer and monitor their own budget. These employees regularly report the department's financial transactions to the Auditor-Controller. Each department's finance manager must be knowledgeable, not only in financial matters, but the operational functions of the department to ensure the budget is correctly administered. Humboldt County is not structured in a way that the County could centralize financial operations. The Auditor-Controller lacks both the staffing and operational knowledge of the County's diverse departments to take on that responsibility.

Humboldt County financial procedures are adversely decentralized in that different processes for accounting are used by different departments, including spreadsheets and paper timecards. The Board can direct the Auditor-Controller to supervise the accounting forms and the method of keeping the accounts under the control of the Board. This would compel the Auditor-Controller, as the chief accounting officer of the County, to standardize methods, including county-wide use of Finance Enterprise accounting modules. Neither of these has occurred.

Decentralization cannot be used as an explanation for inefficiency or failure to meet statutory requirements. Essential to accurate financial accountability is adequate

Commented [PDK62]: False. BOS Meeting 5/11/2021 Item #21-608 Agreement Amendment with Macias, Gini, & O'Connell, LLP and Supplemental Budget (4/5 Vote Required)

Time marker: 1:03:47

KPD: "I would like to understand, is this contract, this 500 grand, for MGO to come to work in the Auditor-Controller department? I heard Supervisor Bohn say that you're giving 500 grand to my department. Did I misunderstand this item? Is the 500 grand for them to come help my department because that's not what I believe it is."
Amy Nilsen: "Through the chair, can I answer that question? No. This is not... if the Auditor-Controller would like assistance from MGO to come and work in your department, then this contract does provide that flexibility. This is in no way shape or form a mandate and this is an opportunity to provide assistance and to help and it's supported by other county departments."

Commented [PDK63]: False. KOA Hills was engaged to help Human Resources with payroll when payroll was housed in Human Resources. When payroll was transferred back to the A-C Office, KOA Hills was re-engaged to assist HR with HR tasks and CAO-IT with system support.

Commented [PDK64]: The County departments do not hire accountants to do accounting work.

Commented [PDK65]: False. Document gathering in progress.

Commented [PDK66]: False. The Auditor-Controller prescribes the forms and methods... CA Gov Code 26881

Commented [PDK67]: False and misinformed.

communication between the Auditor-Controller and finance managers of the various departments. The use of common terms and comprehensive, written procedures, understood by all parties, is necessary to ensure compliance with reporting requirements.

Commented [PDK68]: This is exactly what the Auditor-Controller has promoted. Document gathering in progress.

FINDINGS

F1: The Office of the Auditor-Controller lacks institutional knowledge due to staff turnover and with outdated written policies and procedures in place; therefore, staff in the Auditor-Controller's office interpret procedures on a case-by-case basis, without certainty that their interpretation is correct. (R1, R3)

F2: To address the lack of written procedures, the Auditor-Controller introduced several new operating strategies that improved Humboldt County fiscal operations into the future.

F3: The Auditor-Controller did not submit a proposed budget to the County Administrative Office for Fiscal Years 2020/2021, 2021/2022, or 2022/2023 where, per established procedures, staffing requests are to be made. (R5, R6)

Commented [PDK69]: False. See documents in folder F3.

Commented [PDK70]: False. See document "2019-11-06 Former CAO Outlining Process for Requesting Staff Confirming Requests Can Happen At Any Time During The Year" in folder F3

F4: The Auditor-Controller and County departments have different interpretations of fiscal policies; therefore, they utilize different operational reporting structures and technology resulting in inefficient operations and delayed budget and audit reporting. (R1, R2, R3, R4)

F5: The Board of Supervisors is responsible for the administration and management of the County's business practices; however, the Supervisors did not respond in an effective manner to information provided to them regarding dysfunction on many levels between the County Administrative Officer, Auditor-Controller, other elected officials, and department directors. (R7, R8, R9, R10)

Commented [PDK71]: False. Document gathering in progress.

F6: Humboldt County Code, Sec. 241-6(a) requires the County Administrative Officer and the Auditor-Controller to cooperate in the preparation of the County's annual budget. There is a general obligation that the two offices collaborate to ensure fiscal responsibility; however, this is being obstructed by a breakdown of trust and communications between the two offices. (R5, R6, R8)

Commented [PDK72]: False. County Code 241-6(a) states "Subject to the control and direction of the Board of Supervisors, the County Administrative Officer shall:

(a) Administration. Administer, enforce and carry out the policies, rules, regulations, orders and Code sections as implemented and directed by the Board of Supervisors relating to the administration of County departments, services, institutions or districts. (Ord. 2274, 5/21/2002)

County Code 241-6(d) & (e) direct the CAO to supervise "in cooperation with the Auditor-Controller" the County Budget.

See documents in folder F6

Commented [PDK73]: False. A-C proposed alternative procedure and T-TC did not respond. See document "2019-07-11 A-C & T-TC Draft Communication Re Change to Cash Receipts" in folder F7 & F8.

Also, per CA Gov code 27009 "The treasurer shall give a receipt to each person who deposits money into the county treasury." Since deposits are made in the Treasurer's office, not the Auditor-Controller's office, the Auditor-Controller is not obligated to provide receipts or certificates for money it does not actually receive.

Commented [PDK74]: See documents in folder F7 & F8

F8: The Auditor-Controller notified the Treasurer-Tax Collector that a "certificate of the auditor" would no longer be provided as a receipt for deposits to the Treasury but did not establish an alternative control procedure as provided by statute and recommended by the Treasurer-Tax Collector. (R12) 21

F9: The Auditor-Controller did not file financial reports and audits on time as required by the Federal Government and the State of California in 2019, 2020, 2021 and 2022, causing loss of substantial public funds to the County, schools and special districts, and putting past, current, and future funds at risk. (R13, R14)

Commented [PDK75]: False.

F10: The Auditor-Controller made changes to the chart of accounts and object lines resulting in deletion of data leading to the inability for County programs to make claims for reimbursements. (R2, R3, R4)

Commented [PDK76]: False. Document gathering in progress.

F11: Department financial managers have reported changes by the Auditor-Controller to financial procedures made without timely notification or consultation are disruptive to their departments. (R2, R3, R4)

Commented [PDK77]: It is true that these managers reported this but they are incorrect. See documents in folder F11.

F12: Departments, other than that of the Auditor-Controller, are not able to utilize Finance Enterprise workflow modules to submit journal entries, invoices and accounts receivable as well as run reports. This requires information to be entered into spreadsheets and transmitted to the Auditor-Controller's office, where staff in that office, in a duplication of effort, enters the same information into Finance Enterprise. (R15)

Commented [PDK78]: False. Document gathering in progress.

Commented [PDK79]: This module is in development and not finalized yet.

F13: The County paid unnecessary credit card interest; lost bank interest; paid for consultants to assist with finances and other professional or personnel services; faced delays in receiving funds; paid fines and late fees; and missed opportunities to secure grants. These losses were the result of payments or required reports not submitted on time by the Auditor-Controller. (R13, R14)

Commented [PDK80]: False.

Commented [PDK81]: No evidence

F14 The County's financial procedures are decentralized in that different processes for accounting are used by different departments, including the use of spreadsheets and some use of paper timecards. (R1, R2, R3, R4, R16)

Commented [PDK82]: False and irresponsible claim.

F15: Adjustments or corrections to financial items in the accounting system, called journal entries, were not posted in a timely manner by the Auditor-Controller resulting in County departments not having accurate information to determine current budget funds and bank balances. (R17)

Commented [PDK83]: False. See documents in folder F15.

F16: The Board of Supervisors adopted Resolution 21-128 affirming, unless otherwise authorized by law, all interest on monies deposited with the County belongs to and shall be paid quarterly into the General Fund and the Auditor-Controller is authorized and directed to act in compliance with the resolution and Government Code section 53647. (R18)

F17: The County Administrative Officer is responsible for supervising County business affairs, as charged by the Board of Supervisors, specifically including, supervising all departments for whom the Board adopts an annual budget. (R19)

RECOMMENDATIONS

R1: The Humboldt County Civil Grand Jury recommends the Auditor-Controller develop and maintain an accessible (and regularly updated) written and comprehensive operations policy and procedures manual that is available to current staff and new-hires. The Grand Jury recommends a draft manual be completed by Dec. 31, 2022, and fully implemented by July 1, 2023. **(F1, F2, F4, F14)**

R2: The Humboldt County Civil Grand Jury recommends that when the policy and procedures manual is adopted, the following specific items be included:

- a) When procedures are updated, give advanced written notification to all County departments of all changes, including chart of account object lines.
 - b) Restrict changes to the chart of accounts to the first day of a fiscal year.
- (F4, F10, F11, F14)

Commented [PDK84]: This is already done.

Commented [PDK85]: No.

R3: The Humboldt County Civil Grand Jury recommends the Auditor-Controller, in cooperation with financial managers from County departments, develop an agreed-upon written process for recommending, implementing, and giving notice of changes to financial procedures. This should be completed by Oct. 1, 2022. **(F1, F4, F10, F11, F14)**

Commented [PDK86]: No; unnecessary and duplicative.

R4: The Humboldt County Civil Grand Jury recommends the Auditor-Controller provide accessible, written policies and procedures to County departments, school and special districts and other organizations for which financial services are provided. These will clearly state terminology and methods required by the Auditor-Controller. The Grand Jury recommends this be completed by Dec. 31, 2022, as part of the policies and procedures manual development. **(F2, F4, F10, F11, F14)**

Commented [PDK87]: Already done.

R5: The Humboldt County Civil Grand Jury recommends the Auditor-Controller follow established procedures by submitting an annual budget proposal to the County Administrative Office for Fiscal Year 2022/2023, and for each subsequent fiscal year. **(F3, F6)**

R6: The Humboldt County Civil Grand Jury recommends that with the Fiscal Year 2022/2023 budget request, the Auditor-Controller submit a plan to meet operational requirements, including staffing requirements needed to achieve the plan's goal. When the budget request is approved, the plan, which will reduce the need for the County to hire consultants, should be implemented by June 30, 2023. **(F3, F6)**

Commented [PDK88]: Already done to the Board in public forum. Also, MGO was hired specifically for this purpose.

R7: The Humboldt County Civil Grand Jury recommends that when notified of conflicts between elected and appointed officials, the Board of Supervisors act promptly to investigate and take necessary actions. **(F5)**

R8: The Humboldt County Civil Grand Jury recommends the Board of Supervisors establish an Advisory Committee to include the County Administrative Officer, Auditor-Controller and Board appointees of no less than three other elected officers or department heads. This committee may include a facilitator to help enable the transfer of institutional

knowledge, set goals and build on complementary strengths. The Grand Jury recommends this committee be established by Oct. 1, 2022. (F2, F4, F5, F6)

Commented [PDK89]: Redundant and unnecessary.

R9: The Humboldt County Civil Grand Jury recommends the Advisory Committee convene on a regularly scheduled monthly basis or more frequently whenever a majority of the members deems it desirable or necessary. Effective upon establishment of the committee. (F5, R8)

Commented [PDK90]: Redundant and unnecessary.

R10: The Humboldt County Civil Grand Jury recommends the County Administrative Officer and the Auditor-Controller establish effective communications in person, by telephone and by email, actively seeking mutual agreements for the general welfare of the County. (F5, F6)

Commented [PDK91]: Redundant.

R11: The Humboldt County Civil Grand Jury recommends the Auditor-Controller and Treasurer-Tax Collector begin reconciling cash and investment accounts for which they are responsible no later than the last day of each month for the preceding month as required by Government Code §26905. The Grand Jury recommends this commence at the beginning of the new fiscal year on July 1, 2022. (F7)

Commented [PDK92]: This will significantly impact departments more than the Treasurer and Auditor-Controller.

R12: The Humboldt County Civil Grand Jury recommends the Auditor-Controller either reinstate issuing "certificates of the auditor" or reach an agreement with the Treasurer-Tax Collector for an alternative control procedure as directed by Government Code §27008. The Grand Jury recommends this commence at the beginning of the new fiscal year on July 1, 2022. (F8)

Commented [PDK93]: No.

R13: The Humboldt County Civil Grand Jury recommends the Auditor-Controller file all required financial reports and audits by their due dates, beginning with the next required report. (F9, F13)

Commented [PDK94]: This will affect other departments more than the Auditor-Controller.

R14: The Humboldt County Civil Grand Jury recommends if the Auditor-Controller anticipates a required financial report or audit cannot be filed on time, the Board of Supervisors be notified and assistance be requested from the County Administrative Officer, and if needed, from the Treasurer-Tax Collector, impacted departments or agencies, and the State Controller's Office. (F9, F13, R13)

Commented [PDK95]: Already did this. Futile.

R15: The Humboldt County Civil Grand Jury recommends the Auditor-Controller provide training to fiscal staff in all County departments to properly use the workflow modules of Finance Enterprise and authorize trained employees to use those modules to submit journal entries, invoices and accounts receivable as well as run reports. This will reduce redundancy on a countywide basis. Training to be completed and Finance Enterprise access permission to be given by Dec. 31, 2022. (F12)

Commented [PDK96]: Already did this. Futile.

R16: The Humboldt County Civil Grand Jury recommends the Board of Supervisors exercise supervision over the accounting forms and methods of keeping the accounts that are under their control by directing the Auditor-Controller to standardize the accounting methods used throughout County government. These forms and methods should be developed by Dec. 31, 2022, and fully implemented by July 1, 2023. (F14)

Commented [PDK97]: What? No.

R17: The Humboldt County Civil Grand Jury recommends the Auditor-Controller post all journal entries no later than 30 days from the date they were submitted. **(F15)**

Commented [PDK98]: Give us more staff. Direct departments to submit accurate journals timely.

R18: The Humboldt County Civil Grand Jury recommends the Auditor-Controller comply with the Board of Supervisors' Resolution 21-128. **(F16)**

R19: The Humboldt County Civil Grand Jury recommends the County Administrative Officer comply with the County Code requirement of supervising all County departments by requiring all departments to submit financial documents to the Auditor-Controller within the timeframe and in the manner necessary to meet established reporting and filing deadlines.

REQUEST FOR RESPONSES

Pursuant to Penal Code section 933.05, the Humboldt County Civil Grand Jury requests responses as follows:

Within 60 days from the following individuals:

Humboldt County Auditor-Controller Karen Paz Dominguez at KPazDominguez@co.humboldt.ca.us: **(F1, F3, F4, F6, F7, F8, F9, F10, F11, F12, F13, F14, F15, F16, R1, R2, R3, R4, R5, R6, R8, R9, R10, R11, R12, R13, R14, R15, R16, R17, R18)**

Humboldt County Administrative Officer Elisha Hayes at ehayes@co.humboldt.ca.us: **(F3, F6, F9, F12, F13, F14, F17, R3, R5, R6, R8, R9, R10, R11, R14, R19)**

Humboldt County Interim Treasurer-Tax Collector Amy Christensen at achristensen@co.humboldt.ca.us: **(F7, F8, F13, R11, R12, R14)**

Humboldt County Sheriff William Honsal at whonsal@co.humboldt.ca.us: **(F4, F11, F12, F14, R3)**

Humboldt County Public Works Director Thomas Matson at tmatson@co.humboldt.ca.us: **(F4, F9, F11, F12, F14, R3)**

Humboldt County Department of Health & Human Services Director Connie Beck at CBeck@co.humboldt.ca.us: **(F4, F9, F10, F11, F12, F14, F15, R3)**

Within 90 days from the following governing body:

Humboldt County Board of Supervisors at vbass@co.humboldt.ca.us, mike.wilson@co.humboldt.ca.us, rbohn@co.humboldt.ca.us, mbushnell@co.humboldt.ca.us, smadrone@co.humboldt.ca.us: **(F5, F6, F13, F14, F16, F17, R1, R4, R5, R6, R7, R8, R9, R14, R17, R18, R19)**

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