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Memorandum

To: County Administrative Office, Board of Supervisors

From: Thomas K. Mattson, Director of Public Works

Subject: Response to 2021-22 Grand Jury Report "Distrust, Disagreements, Dysfunction"

Date: July 22, 2022

The Department of Public Works is in receipt of the Grand Jury Report titled "Distrust, Disagreements, Dysfunction." Per the request of the Grand Jury, the Department has reviewed the report and is providing a response to Findings F4, F9, F11, F12, F14, F15 and Recommendation R3.

FINDINGS

FINDING 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.

Partially Agree. Humboldt County Public Works uses an additional operation reporting structure for management of the road fund which is required by the State Controller for the annual Road Report. The additional structure is a cost accounting management system that costs out expenditures by project, road, and activity numbers to greater detail than is available through the county finance system. This additional system does not cause delay to budget and audit reporting as the system is independent from county finance system and is balanced to the finance system on a monthly and annual basis by Public Works finance staff. Both reports from both the county finance system and the Public Works cost accounting management system are included in the annual filing of the Road Report which is completed by a representative of the State Controller's Office.

FINDING 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.

Agree. Humboldt County Public Works has been unable to file an indirect cost rate with the Department of Transportation since fiscal year 2018-19 as the Financial Statements for the subsequent years listed in finding F9 have not been filed with the State of California. The Public Works department utilizes an indirect cost rate to

recoup overhead and administrative costs that are otherwise not directly reimbursable through project billings. The department can retroactively seek reimbursement for expenses related to the department's approved indirect cost rate so long as the project has not been closed. The department must adhere to strict timelines for project closeout once construction related to the project has been completed. The department is not able to keep a project open indefinitely solely for the purpose of claiming the overhead included in our indirect cost rates which have not been filed due to delinquent financial reports that have not been filed by the Auditor/Controller. The loss of funding and the risk to future funding related to the indirect cost rate increases the longer these financial reports and audits remain unfiled.

Additionally, the Department of Transportation has disallowed funding for all future projects until annual financial reports are completed.

FINDING 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.

Agree. Changes to financial procedures have created additional work for departments as these changes have impacted departments' Board approved budgets. Line items that were approved by the Board were inactivated mid-year in the county's financial system without prior notification to departments. These changes to local accounting procedures required departments to process additional appropriation transfers to open allowable lines. This caused delays in vendor payments being processed and increased the number of journals that had to be created and posted in the county's finance system. These changes were made without notice and departments were individually made aware as normal workflow was halted by Auditor-Controller staff.

Additionally, changes in financial procedures created additional costs for the Public Works Road Fund because the state mandated Cost Accounting Management System utilized by the department had to be reprogrammed to accommodate the changes.

FINDING 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.

Agree. Permitting departments to submit journal entries through workflow would allow department to process journals and let the financial system alert when errors are on the journal before it goes to the Auditor-Controller's office. This would decrease workload for Auditor-Controller staff communicating back and forth with departments over errors or system blocks and decrease timeline for posting journals to the finance system. Being able to run reports is vital for any financial department and not giving staff access and/or removing staff access without prior notification has slowed down process with one staff member having to ask another to run a report for them. New entry level staff have not been giving access to modify accounts payable entries for all Public Works budgets which causes inequitable division of workloads for senior and management staff and increased costs to departments.

FINDING 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.

Partially Agree. Public Works uses the county financial system, but the department is also required to have and maintain a cost accounting system for project tracking. The county's financial system does not track to the level that is needed for project reimbursement. Public Works has a large volume of staff that do not use computers as it is not required of their job, this requires paper timecards to be used. The county time tracking system is not a job costing system and does not allow for the level of detail required for the department's cost accounting system for project tracking and billing.

FINDING 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.

Agree. Public Works agrees with this statement. The department created a tracking sheet for journals that were submitted to monitor how long it took journal entries to be posted and, in some cases, it was up to ten months for a journal to post. This became an issue for filing the annual Road Report, which requires the departments cost accounting system to be balanced to the county's finance system.

RECOMMENDATIONS

RECOMMENDATION 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.

Will be implemented. Having written processes and procedures in place will ensure cross departmental understanding of financial procedures and will mitigate miscommunications and potential delays to county workflow.