

## RESPONSE TO GRAND JURY REPORT

Report Title: Distrust, Disagreements, Dysfunction: Non-Communication Minus Cooperation Divided by Variable Policies and Multiplied by Missing Reports Equals Financial Chaos

Report Date: June 6, 2022

Response by: Elishia Hayes, County Administrative Officer

### FINDINGS

The County Administrative Officer agrees with Findings: F3, F6, F9, F13 and F17

The County Administrative Officer partially agrees with Findings: F12 and F14.

### RECOMMENDATIONS (R3, R5, R6, R8, R9, R10, R11, R14, R19)

Recommendations numbered 10 have been implemented.

Recommendations numbered 11 and 19 will be implemented.

Recommendations numbered 3, 5, 6 and 8 are in the process of being implemented.

Recommendations numbered \_\_\_ require analysis.

Recommendation numbered 9 and 14 will not be implemented.

Date: \_\_\_\_\_ Signed: \_\_\_\_\_

Number of pages attached: 4



**COUNTY OF HUMBOLDT**  
**COUNTY ADMINISTRATIVE OFFICE**  
**MANAGEMENT & BUDGET TEAM**

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INTEROFFICE MEMORANDUM

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**TO:** BOARD OF SUPERVISORS  
**FROM:** ELISHIA HAYES, COUNTY ADMINISTRATIVE OFFICER  
**SUBJECT:** RESPONSE TO 2021-22 GRAND JURY REPORT "DISTRUST, DISAGREEMENTS, DYSFUNCTION"  
**DATE:** AUGUST 16, 2022

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**FINDINGS**

Finding 3: *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.*

**Response: Agree**

The County Administrative Office (CAO), after receiving direction from the Board of Supervisors during open session and the mid-year budget report, provides departments their fixed cost estimates for the coming year (salary and benefits; insurance; Information Technology; Purchasing; Motorpool, etc) as well as the amount of General Fund allocation they will receive. At the mid-year budget report, the Board also provides direction on priorities for any additional General Fund requests that departments may have. From there, departments estimate any additional funding they expect to receive and their associated expenses, then they categorize those expenses and enter them into the county's financial system, Finance Enterprise. Departments can also submit any additional requests for funding, including staffing requests, and provide their justification.

Typically in April, departments come before the Board during two informational meetings to discuss directly with the Board the condition of their budgets and programs. These are also opportunities for departments to express to the Board their need for any additional funding request they have submitted. During this same time (typically in March and April), CAO staff meet individually with each department to discuss their budgets, answer questions and hear concerns.

The CAO then gathers all of this information and considers the additional funding requests in light of the Board-approved priorities and discussions, and makes a recommendation to the Board in June in the form of the Proposed Budget. From there, the Board holds two public hearings to hear from the public and discuss the Proposed Budget with departments. Again, these are additional opportunities for departments to come before the Board to express their needs.

The CAO provides all of these public meeting dates to departments at the beginning of the budget development process. The Auditor-Controller did not participate in any of these processes for FY 20-21, 21-22, or 22-23.

**Finding 6:** *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.*

**Response: Agree**

In the short time since Cheryl Dillingham has stepped into the role of Interim Auditor-Controller, there has been an increase in communication and collaboration between the Auditor-Controller and County Administrative Officer, as well as with other department fiscal staff.

**Finding 9:** *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.*

**Response: Agree**

Interim Auditor-Controller Cheryl Dillingham has developed a corrective action plan to have the outstanding financial audits and financial transaction reports through fiscal year 2021-22 finalized by June 30, 2023. This plan has been reviewed by the state. The County Administrative Officer is dedicated to supporting this goal through the allocation of supporting resources and staffing.

**Finding 12:** *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.*

**Response: Partially agree**

Departments can submit invoices into Finance Enterprise. However, department staff, other than that of the Auditor-Controller, cannot submit journal entries and accounts receivables. Department staff can run certain reports but have had their permissions limited by the Auditor-Controller to run other reports. Staff, working with a third-party consultant, have developed a plan to automate and streamline a number of processes in the county's financial software. Included in that plan is developing processes so that departments have responsibility for creating and inputting journal entries and accounts receivable entries into the Finance Enterprise system workflow. Interim Auditor-Controller Cheryl Dillingham is providing additional report access to department staff in an effort to add an additional layer of review for accuracy in transactional postings.

Finding 13: *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 results of payments or required reports not submitted on time by the Auditor-Controller.*

**Response: Agree**

Finding 14: *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.*

**Response: Partially agree**

The central agencies responsible for issuing financial procedures are the Auditor-Controller and CAO. Each department then may produce their own department-specific procedures that allow them to more streamline application of rules from the central agencies to their individual programs.

Finding 17: *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.*

**Response: Agree**

Humboldt County Code (HCC) 241-2, states the County Administrative Officer (CAO):

*"... is responsible for carrying out the decisions of the Board and seeing that policies and procedures are implemented and executed."*

HCC 241-6(a) and (b) state:

*"Subject to the control and direction of the Board of Supervisors, the County Administrative Officer shall ... (a) 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.*

*(b) Supervise the affairs of the County as charged by the Board of Supervisors and supervise all departments, services, institutions and districts of the County for whom or for which the Board of Supervisors is required to adopt an annual budget, except the County Counsel; and to have the right to report on or to discuss with the Board of Supervisors any matter concerning the affairs of the departments, services, institutions or districts under County Administrative Officer supervision."*

The CAO is charged with supervising the affairs of the county and those entities for whom the Board adopts an annual budget. It enforces and carries out the Board's policies, coordinates the administration of departments and services under the CAO's supervision and makes recommendations on transferring personnel a services between them. The CAO, in cooperation with the Auditor-Controller, supervises the budget, and reviews all requests for additional personnel and makes recommendations to the Board on those matters. Finally, upon direction from the Board, the CAO may assist in performing evaluations of department heads, and recommend to the Board appointment, reassignment, reduction or discipline up to and including termination.

However, the Board is ultimately charged with performing evaluations and retains appointing authority over non-elected department heads. The residents and voters of Humboldt County review the performance of elected officials, even though the Board adopts the annual budgets of the departments within which those elected officials operate.

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**RECOMMENDATIONS (R3, R5, R6, R8, R9, R10, R11, R14, R19)**

Recommendation 3: *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.*

**This recommendation is in the process of being implemented.**

The county contracted with the accounting and financial services consultant Macias, Gini & O'Connell, LLP (MGO) to develop and update the County's Financial Policies Manual to serve this very purpose. The draft manual was completed by MGO in the fall of 2021. County Counsel and the County Administrative Office have reviewed the manual and provided feedback. The prior Auditor-Controller had not reviewed the manual. The Interim Auditor-Controller Cheryl Dillingham will have the opportunity to review the manual and provide feedback. Presentation for possible adoption by the Board of Supervisors is anticipated sometime in October of 2022.

Recommendation 5: *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.*

**This recommendation is in the process of being implemented.**

Recommendation 6: *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.*

**This recommendation is in the process of being implemented.**

The CAO will work with the new Auditor-Controller to determine needs to meet operational requirements and available resources to meet those needs, and will return to the Board if necessary for approval.

CAO staff included a place-holder budget for the Auditor-Controller's office in the Recommended FY 2022-23 Budget and increased the Contingency Funds budget by more than \$900,000 to \$2.5 million understanding that additional resources would likely be necessary to complete the backlog of financial transactions and reporting in the Auditor-Controller's office. Staff vacancies and unsuccessful staff recruitments have created additional challenges in filling a number of already allocated and budgeted positions that exist in the Auditor Controller's department. Staff from the CAO's Office have been loaned to the new Auditor-Controller to help with the transition and ongoing operational requirements.

Recommendation 8: *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.*

**This recommendation is in the process of being implemented.**

The county has an established Audit Committee which, if utilized by the Auditor-Controller can be built upon to fulfill many of the objectives outlined above. The current Audit Committee includes the Auditor-Controller, the CAO and the Treasurer Tax Collector as nonvoting members. The Board of Supervisors appointed two of its members to the committee, one special district or school member, and two qualified members of the public. The challenges with the Auditor-Controller, the Board of Supervisors, the CAO and other county departments was rooted in communication issues, which are improving under Ms. Dillingham serving as Interim Auditor-Controller or when she assumes the elected office after Jan. 1, 2023.

Recommendation 9: *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.*

**This recommendation will not be implemented.**

As stated above, the county has an established Audit Committee in large part due to communication issues that are not anticipated to continue under new leadership in the Auditor-Controller's Office. Staff are currently meeting as needed with the Auditor-Controller and communication has improved. That arrangement is proving effective.

Recommendation 10: *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.*

**This recommendation has been implemented.**

The CAO and Auditor have established bi-weekly standing meetings and have been in regular communication as needed. In addition, the Assistant CAO/Chief Financial Officer is currently serving as Interim Assistant Auditor-Controller. This sharing of resources has helped tremendously in bridging the gap between both offices.

Recommendation 11: *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.*

**This recommendation will be implemented.**

Staff from the Treasurer-Tax Collector and the CAO's office have been working together since April 2022 to reconcile cash and investment accounts for FY 2019-20 and subsequent years. The CAO/Chief Financial Officer has continued this work as Interim Assistant Auditor-Controller since July 1, 2022, in the Auditor-Controller's office. Action plans submitted to the State Controller's Office and the county's outside auditing firm CliftonLarsonAllen incorporate cash and investment reconciliation processes that will continue to be performed by the Auditor Controller's office on an ongoing basis.

Recommendation 14: *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.*

**This recommendation cannot be implemented by the County Administrative Officer.**

The CAO fully supports and endorses this recommendation, however; the recommendation is for the Auditor-Controller to notify the Board of Supervisors and request assistance from the CAO and if needed other departments or agencies.

Recommendation 19: *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.*

**This recommendation will be implemented.**

Humboldt County Code (HCC) 241-2, states the County Administrative Officer (CAO):

*"... is responsible for carrying out the decisions of the Board and seeing that policies and procedures are implemented and executed."*

HCC 241-6(b) states:

*"Subject to the control and direction of the Board of Supervisors, the County Administrative Officer shall ... Supervise the affairs of the County as charged by the Board of Supervisors and supervise all departments, services, institutions and districts of the County for whom or for which the Board of Supervisors is required to adopt an annual budget, except the County Counsel; and to have the right to report on or to discuss with the Board of Supervisors any matter concerning the affairs of the departments, services, institutions or districts under County Administrative Officer supervision."*

As stated above, the CAO is charged with supervising the affairs of the county and those entities for whom the Board adopts an annual budget. It enforces and carries out the Board's policies, coordinates the administration of departments and services under the CAO's supervision and makes recommendations on transferring personnel a services between them. The CAO, in cooperation with the Auditor-Controller, supervises the budget, and reviews all requests for additional personnel and makes recommendations to the Board on those matters. Finally, upon

direction from the Board, the CAO may assist in performing evaluations of department heads, and recommend to the Board appointment, reassignment, reduction or discipline up to and including termination.

However, the Board is ultimately charged with performing evaluations and retains appointing authority over non-elected department heads. The residents and voters of Humboldt County review the performance of elected officials, even though the Board adopts the annual budgets of the departments within which those elected officials operate.

Finally, the Auditor-Controller creates their own guidelines and deadlines, not the CAO. While the CAO and county will strive to meet those requirements, it is incumbent upon the Auditor-Controller to clearly delineate and make reasonable the information, records and deadlines they require and require departments to meet.