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Management
County of Humboldt
Eureka, California

In planning and performing our audit of the financial statements of County of Humboldt as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

However, during our audit we became aware of other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below. The County's single audit report dated March 21, 2018, contains our written communication of material weaknesses in the County's internal control. This letter does not affect our report on the financial statements nor our internal control communication contained in the single audit report dated March 21, 2018.

**DISAGGREGATION OF RECEIVABLES**

Condition

Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Disclosures*, requires components of significant receivables to be disclosed in the financial statements. Components of receivables include accounts receivable (due from citizens), taxes (property, sales taxes, transient occupancy) receivable, interest receivable, amounts due from other governments and notes receivable.

Currently, the County records accounts receivable, taxes receivable and due from other governments within the same receivable account within its general ledger. However, the County's recently updated its chart of accounts to include separate accounts for the various types of receivables.

Recommendation

We recommend the County utilize its chart of accounts to account for the various receivable and payable types, including accounts receivable, loans receivable, interfund advances (and payables) and amounts due from other governments. Year-end closing procedures should be modified to capture receivable balances into each of these accounts according to their nature.

## GOVERNMENTAL TRUST FUNDS

Condition

Under Governmental Accounting Standards Board Statement No. 34 (GASB 34), amounts formally held in trust but used to support the County's own programs should be reported as funds within the County's reporting entity so as to ensure all economic resources that can be used by the County are reported in their financial statements. Activity in these accounts is required to be included in the County's reporting entity, either as additional funds or transactions in existing county funds.

Use of the agency fund type is limited to resources the County holds purely in a custodial capacity for individuals or other organizations, such as special districts not governed by the County Board of Supervisors.

The County is currently maintaining more than 150 governmental trust funds to track activity benefitting the General Fund and other primary operating funds of the County.

By excluding transaction activity in these funds, balances for revenues and expenses in the County's own financial reports (including budgetary reports) are not complete. There is the potential to double-report revenues and expenditures when resources are transferred into operating funds. Using multiple funds within the accounting system to control the flow of revenues increases the potential for reporting revenues and expenditures twice.

As the County does not budget for any activity occurring in these governmental trust funds, any deviations from the adopted budget are not apparent until well after the end of the fiscal year and thus cannot be addressed when they occur.

Recommendation

We recommend the County analyze each of its governmental trust funds to determine if there is a particular need to account for resources separately from the primary operating funds of the County. We further recommend the County implement controls to minimize the double reporting of revenues and expenditures when utilizing these trust funds for controlling the flow of resources.

## USE OF MISCELLANEOUS REVENUE ACCOUNT

Condition

The miscellaneous revenue account should be used to record revenues that fall outside of the other revenue categories, such as intergovernmental revenues and charges for services, and that are considered to be infrequent in nature.

We noted that the County's use of the miscellaneous trust fund revenue account (account 808000) includes various types of revenue, including intergovernmental revenues and revenue generated from charges for services. During the audit, we noted that the County had recorded in excess of $9 million to the miscellaneous trust fund revenue account 808000.

When revenues are improperly classified as miscellaneous revenues the true condition of the fund may be misleading. The level of detail for classifying transactions should be sufficiently categorized so as to be meaningful to management in making decisions.

Recommendation

We recommend that the County consider restricting the use of its miscellaneous revenue account for revenue sources that cannot be categorized under the existing revenue types, including charges for services, fines, intergovernmental revenues, and licenses and permits.

**EXPAND CHART OF ACCOUNTS IN CERTAIN FUNDS**

Condition

The County's chart of accounts should be detailed enough as to provide adequate management information. During our review of the County's debt service fund, we noted that the County recorded its annual net change in the cash with fiscal agent account balance to a single expenditure account.

The County relies on various spreadsheets to track certain accounts at a more detailed level. For example, the County maintains a spreadsheet to track the activity of the debt service fund, including interest earnings and debt service payments.

Recommendation

We recommend the County expand its chart of accounts in certain funds where applicable to be used for significant accounts, such as major sources of revenues and expenditures. In the debt service fund, for example, the County should report the change in the cash with fiscal agent account as adjustments to debt service principal and interest expenditures and interest earnings rather than as a net change to trust fund expenditures.

**FORMAL CAPITAL ASSET POLICY**

Condition

The County has a significant investment in capital assets, such as land, buildings, roads and equipment. Adopting a policy will help ensure that the County's capital assets are acquired, safeguarded, controlled, disposed of and accounted for in accordance with state and federal regulations, audit requirements and generally accepted accounting principles. At the time of our audit, we noted that the County did not have a formal capital asset policy.

Without a written capitalization policy, inconsistencies and misunderstandings regarding proper policy capitalization thresholds and estimated useful asset lives are likely to occur. In addition, misstatement of net capital assets as well as a lack of comparability between years can result when policies and procedures regarding capital assets are unclear.

Recommendation

We recommend that the County adopt a comprehensive capitalization policy which includes all required capital asset accounting elements.

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We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, Board of Supervisors, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

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Roseville, California
March 21, 2018