



## Legislation Details (With Text)

**File #:** 2019-0734  
**Type:** Consent Calendar Item **Status:** Agenda Ready  
**File created:** 5/13/2019 **In control:** Auditor-Controller-Treasurer-Tax Collector  
**On agenda:** 6/4/2019 **Final action:**  
**Title:** County of Sonoma Annual Audited Financial Reports for the Fiscal Year Ended June 30, 2018 and Fiscal Year 2017-18 Post Audit Budget Adjustments.  
**Sponsors:** Auditor-Controller-Treasurer-Tax Collector, County Administrator  
**Indexes:**

**Attachments:** 1. Summary Report, 2. Att A -- Letter to the Board of Supervisors for the Year Ended June 30, 2018, 3. Att B -- County of Sonoma Single Audit Report for the Year Ended June 30, 2018, 4. Att C -- Fiscal Year 2017-18 Post Audit Budget Adjustments, 5. Att D -- List of External Auditors by Entity

Date	Ver.	Action By	Action	Result
6/4/2019	1	Board of Supervisors	Approved as recommended	Pass

**To:** Sonoma County Board of Supervisors, Board of Directors of the Sonoma County Water Agency, Board of Commissioners of the Community Development Commission

**Department or Agency Name(s):** Auditor-Controller-Treasurer-Tax Collector and County Administrator's Office

**Staff Name and Phone Number:** Levi Ehrlich 707-565-3289, Niki Berrocal 707-565-3085

**Vote Requirement:** Majority

**Supervisory District(s):** Countywide

### Title:

County of Sonoma Annual Audited Financial Reports for the Fiscal Year Ended June 30, 2018 and Fiscal Year 2017-18 Post Audit Budget Adjustments.

### Recommended Actions:

- Accept the County of Sonoma Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018. The Comprehensive Annual Financial Report (CAFR) presents all of the County's financial activities and balances for the year. The CAFR includes an opinion from the County's independent auditor stating the CAFR fairly presents the financial position of the County.
- Accept the Single Audit Reports for the year ended June 30, 2018 for the County of Sonoma, Sonoma County Water Agency, Sonoma County Transit, and Sonoma County Community Development Commission. The objective of a single audit is to determine compliance with the requirements of federal grants received and to evaluate internal controls.
- Accept the Sonoma County Employees' Retirement Association (SCERA) Schedule of Employer Allocations and Schedule of Pension Amounts by Employer for Employer Reporting as of June 30, 2018.
- Accept the County of Sonoma Other Postemployment Benefit Plan Schedule of Employer Allocations and Schedule of Other Postemployment Benefit Plan Amounts by Employer for Employer Reporting as of June 30, 2018.
- Receive and ratify the Fiscal Year 2017-18 Post Audit Budget Adjustments required to close books in compliance with Generally Accepted Accounting Principles (GAAP).

### Executive Summary:

This board item includes:

1. County of Sonoma's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018.
2. Single Audit Reports for the County of Sonoma, Sonoma County Water Agency, Sonoma County Transit, and Sonoma County Community Development Commission for fiscal year ended June 30, 2018.
3. SCERA's Schedule of Employer Allocations and Schedule of Pension Amounts by Employer for Employer Reporting as of June 30, 2018.
4. County of Sonoma's Other Postemployment Benefit Plan Report Schedule of Employer Allocations and Schedule of Other Postemployment Benefit Plan Amounts by Employer for Employer Reporting as of June 30, 2018.

The above reports are compiled by County/entity staff and audited by external independent auditors.

Together, these reports provide detailed information about the financial condition of the County, confirm that the County is in compliance with federal grant requirements, and maintains internal controls over compliance and financial reporting.

This item also contains a summary of the 2017-18 Post Audit Budget Adjustments, which were required to close the books in compliance with Generally Accepted Accounting Principles (GAAP).

**Discussion:**

**Comprehensive Annual Financial Report:**

This board item presents the County of Sonoma's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. The CAFR is a comprehensive report of the County's financial activities and condition. It is compiled by the Auditor-Controller-Treasurer-Tax Collector (ACTTC) and independently audited by Vavrinek, Trine, Day & Co., LLP (Independent Auditor).

The CAFR provides information useful to County management as well as the public about the overall financial health of the County. This information includes:

- Introductory information that offers a background on the structure of the County, the environment which the County operates, and the types of services it provides;
- Directory of elected and appointed County officials as well as an organizational chart outlining reporting relationships;
- Management's discussion and analysis that provides an objective and easily readable analysis of the County's financial activities;
- Consolidated financial statements showing the financial condition and activities of the County;
- Financial information on individual major and non-major funds of the County;
- Summary of significant accounting policies;
- Detailed notes that present information on the County's cash and investments, receivables, interfund transactions, capital assets, payables and long-term liabilities, fund balance, employee retirement plans, other postemployment health benefits (OPEB), risk management, and commitments and contingencies; and
- Statistical data that offers multi-year trend information along with relevant economic and demographic information.

In the opinion of the Independent Auditor, the financial statements contained in the CAFR “present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2018.”

The County has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting award continuously since 1992 and the CAFR for the fiscal year ended June 30, 2018, has been submitted to the GFOA award program. The Comprehensive Annual Financial Report can be accessed on the Sonoma County Auditor-Controller-Treasurer-Tax Collector website at:

[<http://sonomacounty.ca.gov/ACTTC/General-Accounting/Financial-Reports/>](http://sonomacounty.ca.gov/ACTTC/General-Accounting/Financial-Reports/).

### **Financial Highlights from CAFR**

- The County’s net position was \$951.1 million at June 30, 2018, this is an increase from prior year of \$111.5million (without regard to the net other postemployment benefit (OPEB) restatement described below).
- The County’s net position included \$1.4 billion in net investment in capital assets, \$238.3 million in restricted net position that must be used only for specific purposes, offset by a \$657.7 million deficit in unrestricted net position. The deficit is primarily the result of the County’s unfunded pension and other postemployment benefits (OPEB) liabilities.
- The County’s governmental funds reported combined ending fund balance of \$448.5 million, an increase of \$26.2 million over the prior year. Amounts available for spending include restricted, committed, assigned, and unassigned fund balances and total 96.6% of ending fund balance. Of this amount, \$237.9 million is restricted by law or externally imposed requirements, \$8.9 million is committed for specific purposes, \$133.4 million is assigned to specific purposes determined by the Board of Supervisors, and \$15.1 million is nonspendable.
- The General Fund unassigned fund balance was \$53.2 million, or 13.5% of total General Fund expenditures.
- The County implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), as required for accounting and financial reporting by state and local governments for postemployment benefits other than pensions. As a result, the County’s restated July 1, 2017 net position decreased by \$268.4 million.

Additional information and analysis on the financial highlights is available within the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018 on file with the Clerk of the Board.

In addition to the County’s CAFR, the ACTTC has placed on file with the Clerk of the Board the:

- Audited financial statements for 15 entities which represent individual funds or component units of the County.
- Audited Sonoma County Employees’ Retirement Association Schedule of Employer Allocations and Schedule of Pension Amounts by Employer.
- Audited County of Sonoma Other Postemployment Benefit Plan Schedule of Employer Allocations and Schedule of Other Postemployment Benefit Plan Amounts by Employer.

These separate financial statements are compiled by County/entity staff and audited by independent auditors

separate from the County's CAFR audit. Relevant information contained in these separate audited financial statements is included in the County CAFR, as the CAFR presents financial information for the entire County.

### **Single Audit Report:**

The County receives a significant amount of funding from the federal government. One of the requirements to receive federal funding is that the County undergo a Single Audit. The Single Audit Report includes a Schedule of Expenditures of Federal Awards which lists federal grants and programs and the federal awards expended by the County. The Single Audit has two primary objectives: 1) ensure compliance with the federal grant programs, and 2) to evaluate internal control over compliance. The Single Audit Report is compiled by ACTTC and audited by the County's Independent Auditor. The Single Audit Report contains information on the review of internal controls and specific compliance requirements related to grants based upon the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

The Single Audit Report can be accessed on the Sonoma County Auditor-Controller-Treasurer-Tax Collector website at: <http://sonomacounty.ca.gov/ACTTC/General-Accounting/Financial-Reports/>.

## **Sonoma County CAFR and Single Audit - Audit Recommendations and Findings:**

### **Sonoma County CAFR - Recommendations**

Fraud Hotline - the Independent Auditor noted that the County does not maintain a formalized fraud prevention program. Further, based on inquiry of personnel, there is no formalized mechanism to report suspected incidents or allegations of improper acts. Given the size of the County and complexity of its operations the Independent Auditor recommends that the County develop and appropriately staff a formalized fraud prevention program. This program could include formal procedures/policies for the reporting of all allegations, a fraud hotline and/or contracted assistance for the intake of information.

Management has established a formal committee to implement the Sonoma County Fraud Hotline. The committee plans to review hotline best practices including processing protocol, confidentiality, and the use of an independent provider. The Sonoma County Fraud Hotline is expected to be implemented by June 2020 and management believes it will provide an appropriate mechanism for reporting suspected incidents or allegations of improper acts. The County's Administrative Policy (8-1) for Investigations of Alleged Inappropriate Activities by Employees including Fraud, Theft, and Misuse of County Property Policy Manual, available at <https://sonomacounty.ca.gov/CAO/Administrative-Policy-Manual>, will be updated as necessary

in conjunction with decisions reached by the committee.

### **Sonoma County Single Audit - Finding**

**2018-1.** The Independent Auditor noted under Title 2 U.S. Code of Federal Regulations (CFR) Part 200.331(a), the Human Services Department (HSD) did not identify the required elements of two subawards to the subrecipients at the time of subaward.

HSD management agrees with the finding and has strengthened its current policies and procedures to ensure that all required award information and applicable requirements are communicated by issuing a formal supplemental letter to subrecipients immediately as award information is received.

### **Other Entity Financial Statements and Single Audits - Audit Recommendations and Findings:**

#### **Sonoma County Community Development Commission (CDC) Financial Statement - Findings**

**2018-001.** The external auditor noted the Commission does not complete a timely year end reconciliation of the of Village Green II affordable senior housing complex books at year end.

CDC's Management agrees with the finding and will expand its reconciliation processes for Village Green II on a quarterly basis to include all balance sheet accounts. Review of these reconciliations has been elevated from the Supervising Accountant to the Department Controller. In addition, management has added a step to its year-end processing checklist to make a second request to the property manager for any revised year-end financial data.

**2018-002.** The external auditor noted the Commission omitted federal expenditures relating to the Flood Mitigation Assistance Program from the Schedule of Expenditures of Federal Awards for the year ended June 30, 2018. This corrected misstatement was not deemed material, either individually or in the aggregate, to the financial statements taken as a whole. In order to ensure that all federal expenditures are correctly reported on the Schedule of Expenditures of Federal Awards, CDC's external auditor recommends that the Commission complete a reconciliation of intergovernmental revenues received during the year to the amounts reported on the Schedule of Expenditures of Federal Awards.

CDC's Management agrees with the finding and will implement the recommendation.

#### **Sonoma County Airport Enterprise Fund Financial Statement - Finding**

**2018-1.** The Airport's external auditor noted that the Airport did not correctly report the amount of Passenger Facility Charge (PFC) revenue to the Federal Aviation Administration (FAA) Airports office. Their auditor

recommends the Airport implement internal controls to monitor the reporting of PFC revenue received and ensure it is accurately reported to the FAA.

Airport's Management is in agreement with the finding and has corrected the FY 17.18 reporting in the FAA online system for tracking Passenger Facility Charge revenue and expenses (SOARS). In the future, ACTTC staff will review SOARS reports before FAA submission to confirm that the submission reconciles with revenue received for the period.

#### **Fiscal Year 2017-18 Post Audit Budget Adjustments:**

The fiscal year 2017-18 Post Audit Budget adjustments enclosed as Attachment C represent adjustments required to comply with Generally Accepted Accounting Principles (GAAP).

ACTTC staff entered fiscal year 2017-18 post audit budget adjustments resulting in increased net cost of \$293,456 as follows:

- \$293,456 increase in appropriations to SCEIP Work-In-Progress Intangible Assets to properly classify interactive internet based software as an intangible asset.
- \$2,300,000 increase in General Fund long term debt proceeds to properly account for the helicopter capital lease.
- \$2,300,000 increase in machinery and equipment to properly account for the helicopter capital lease purchase agreement.

#### **Prior Board Actions:**

08/07/2018 Board accepted the Sonoma County Annual Audit Reports for Fiscal Year 2016-2017, 08/07/2018 Board accepted the Sonoma County Fiscal Year 2016-17 budgetary adjustments

#### **FISCAL SUMMARY**

<b>Expenditures</b>	<b>FY 18-19 Adopted</b>	<b>FY19-20 Projected</b>	<b>FY 20-21 Projected</b>
Budgeted Expenses			
Additional Appropriation Requested			
<b>Total Expenditures</b>			
<b>Funding Sources</b>			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			

Contingencies			
<b>Total Sources</b>			

**Narrative Explanation of Fiscal Impacts:**

The 17-18 post audit adjustments have the effect of a \$293,456 reduction to the Sonoma County Energy Independence Program Enterprise FY17-18 net position and no net impact to the General Fund - Sheriff's Office fund balance.

<b>Staffing Impacts:</b>			
<b>Position Title (Payroll)</b>	<b>Monthly Salary Range (A - I Step)</b>	<b>Additions (number)</b>	<b>Deletions (number)</b>

**Narrative Explanation of Staffing Impacts (If Required):****Attachments:**

Attachment A: Letter to the Board of Supervisors for the Year Ended June 30, 2018

Attachment B: County of Sonoma Single Audit Report for the Year Ended June 30, 2018

Attachment C: Fiscal Year 2017-18 Post Audit Budget Adjustments

Attachment D: List of External Auditors by Entity

**Related Items "On File" with the Clerk of the Board:**

Fiscal Year 2017-18 Annual Audited Financial Reports for:

1. County of Sonoma Comprehensive Annual Financial Report (CAFR)
2. County of Sonoma Human Services Department California Department of Education Child Development Program
3. County of Sonoma Local Transportation Fund
4. First 5 Sonoma County Commission
5. Occidental County Sanitation District
6. Russian River County Sanitation District
7. Sonoma County Agricultural and Open Space District including as separate attachments:
  - Sonoma County Agricultural and Open Space District Memorandum on Internal Controls and Required Communications and Sonoma County Open Space Special Tax Account
  - Sonoma County Measure F Government Code Section 50075.3 Reporting
8. Sonoma County Airport Enterprise Fund (Includes Schedule of Passenger Facility Charges)
9. Sonoma County Community Development Commission (includes Single Audit Report)
10. Sonoma County Energy Independence Program Enterprise Fund
11. Sonoma County Fair and Exposition, Inc. (for year ended December 31, 2017)
12. Sonoma County Refuse Enterprise Fund

- 13. Sonoma County Transit (includes Single Audit Report)
- 14. Sonoma County Water Agency
- 15. Sonoma Valley County Sanitation District
- 16. South Park County Sanitation District

Other Documents:

- 17. County of Sonoma Management Letter
- 18. Sonoma County Water Agency Single Audit and Management Letter
- 19. Sonoma County Employees' Retirement Association Employer Allocations and Schedule of Pension Amounts by Employer
- 20. County of Sonoma Other Postemployment Benefit Plan Schedule of Employer Allocations and Schedule of Other Postemployment Benefit Plan Amounts by Employer