



Legislation Text

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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, Peter Bruland 707-565-3086
Vote Requirement: Majority
Supervisorial District(s): Countywide

Title:

County of Sonoma's Annual Audited Financial Reports and Post Audit Budget Adjustments for the Fiscal Year Ended June 30, 2019.

Recommended Action:

- A) Accept the County of Sonoma Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2019. The CAFR presents the County's financial activities and balances for the year, and includes an opinion from the County's independent auditor stating internal controls were considered in the audit and the financial statements are fairly presented.
- B) Accept the Single Audit Reports for the year ended June 30, 2019 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.
- C) 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, 2019.
- D) 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, 2019.
- E) Ratify the Fiscal Year 2018-19 Post Audit Budget Adjustments required to close books in compliance with Generally Accepted Accounting Principles.

Executive Summary:

This board item includes:

- 1. County of Sonoma's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2019. The financial statements present the County's financial information in conformity with standards applicable to state and local governments. It is compiled by the Auditor-Controller-Treasurer-Tax Collector (ACTTC) and independently audited. See attachment 1.
- 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, 2019. See attachments 18, 19, 13 and 9.
- 3. SCERA's Schedule of Employer Allocations and Schedule of Pension Amounts by Employer for Employer Reporting as of June 30, 2019. See attachment 20.

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, 2019. See attachment 21.

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 Fiscal Year 2018-19 Post Audit Budget Adjustments, which were required to close the books in compliance with Generally Accepted Accounting Principles.

Discussion:

This item presents summary information and highlights of the County of Sonoma's CAFR for the Fiscal Year Ended June 30, 2019. The CAFR is a broad context report of the County's financial activities and condition. It was prepared by the Auditor-Controller-Treasurer-Tax Collector and audited by Eide Bailly, LLP (an Independent Audit firm).

The CAFR provides information useful to County management and 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, commitments and contingencies; and
- Statistical data that offers multi-year trend information along with relevant economic and demographic information.

The Independent Auditor's Report expresses an unmodified opinion indicating the County's financial statements 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 County, as of June 30, 2019".

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, 2019, has been submitted to the GFOA award program. The CAFR can be accessed on the Sonoma County Auditor-Controller-Treasurer-Tax Collector website at:

<https://sonomacounty.ca.gov/ACTTC/General-Accounting/Financial-Reports>.

Financial Highlights from CAFR

Government-wide highlights:

- The County's government-wide net position was \$1.1 billion at June 30, 2019, an increase of \$140.0 million from prior year.
- The County's government-wide net position included \$1.4 billion in net investment in capital assets, \$277.2 million in restricted net position and was offset by a \$588.1 million deficit in unrestricted net position. The unrestricted net position deficit is primarily the result of the County's unfunded pension and other postemployment benefits (OPEB) liabilities.

Governmental fund highlights:

- The County's governmental funds reported combined ending fund balance of \$526.5 million, an increase of \$77.9 million over the prior year. Amounts available for spending include restricted, committed, assigned, and unassigned fund balances and total 97.6% of ending fund balance. Of the total ending fund balance, \$275.2 million is restricted by law or externally imposed requirements, \$9.2 million is committed for specific purposes, \$158.1 million is assigned to specific purposes determined by the Board of Supervisors and County Administrator's Office, \$71.3 million is unassigned, and \$12.7 million is not in a spendable form.
- The General Fund unassigned fund balance was \$71.3 million, or 18.5% of total General Fund expenditures and includes the General Fund reserve of \$55.2 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, 2019 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 Reports:

The County receives a significant amount of assistance from the federal government. Entities that expend \$750,000 or more of federal assistance are required to undergo a Single Audit in accordance with federal award audit requirements. The Single Audit Reports are compiled annually by County/entity staff and audited by independent auditors.

The County's 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/>](http://sonomacounty.ca.gov/ACTTC/General-Accounting/Financial-Reports/).

Other Audited Financial Statements for County Entities:

Several County entities issue annual financial statements that are independently audited and separate from the CAFR. These entities are either classified as component units of the County or are major funds of the County, and include but are not limited to the Sonoma County Water Agency, Community Development Commission, Agricultural and Open Space District, Refuse Enterprise Fund, Sonoma County Transit, and several sanitation districts.

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 implementation originally scheduled for June 2020 is delayed due to the COVID-19 emergency. Management believes the Sonoma County Fraud hotline 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>](https://sonomacounty.ca.gov/CAO/Administrative-Policy-Manual), will be updated as necessary in conjunction with decisions reached by the committee.

Fair Market Calculation - the Independent Auditor noted that the fair market adjustment recorded at year end to present the balance of cash and investments in the financial statements at fair market value was inaccurately calculated. This caused an immaterial overstatement of cash and investments at June 30, 2019 in the financial statements. The Independent auditor recommend that management implement policies and

procedures to ensure that the fair market value calculations are properly calculated and recorded.

Management is in the process of improving documented procedures for the calculation of unrealized fair market value gains and losses as reported in the County's investment software. Additionally, an analytical review step will be implemented to identify and examine unexpected variances. Fair value adjustments will not be posted unless variances are within expectations or explained through follow up procedures. Management believes these additional measures will ensure that the fair market value calculations are properly calculated and recorded.

Sonoma County Single Audit - Findings

2019-1. The Independent Auditor noted the County has not established written procedures to implement the cash management requirements of Title 2 of the Code of Federal Regulations (CFR), Section 200.305 (Payment) related to the Airport Improvement Program.

The Department of Transportation and Public Works management agrees and will work to strengthen the department cash management policies and procedures in order to comply with 2 CFR 200.305.

2019-2. Based on the Medicaid Cluster-Medi-Cal Assistance Program eligibility testing under 2019 Office of Management and Budget Compliance Supplement, the Independent Auditor identified incidents where eligibility redeterminations were not performed timely.

Human Services Department management agrees and will reassess staff assignments to increase capacity of renewal completions, improve the process for renewal assignments and provide additional evaluation redetermination trainings.

2019-3. The Independent Auditor's identified as part of the In-Home Supportive Services Program testing incidents where the recipient redetermination of eligibility was not performed timely.

Human Services Department (Department) management has reviewed the finding and advised that every effort is being made to comply with the California Department of Social Services (CDSS) direction provided to California counties that an on-time reassessment rate of 80% is acceptable. The Department will work with the Human Services Human Resources to fill vacant social work positions in a timely manner, which is expected to improve the reassessment rate. The Department plans to utilize CDSS's monthly case reporting to develop enhanced tracking methods ensuring that both Social Services Supervisors and social workers are able to efficiently schedule home visits and complete reassessments prior to the end of the month of the reassessment due date.

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

None

Fiscal Year 2018-19 Post Audit Budget Adjustments:

Fiscal Year 2018-19 Post Audit Budget Adjustment enclosed as Attachment B increased expenses and net cost in the Employee Retirement Internal Service Fund by \$12,853,000. This is an annual adjustment required by Government Accounting Standards Board Statement 68 to properly record the increase in net pension liability and pension expense.

Prior Board Actions:

06/04/2019 the Board accepted the Sonoma Annual Audit Reports and Fiscal Year budgetary adjustments for Fiscal Year 2018-19.

FISCAL SUMMARY

Expenditures	FY 19-20 Adopted	FY20-21 Projected	FY 21-22 Projected
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources			

Narrative Explanation of Fiscal Impacts:

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

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

Attachment A: Letter to the Board of Supervisors for the Year Ended June 30, 2019

Attachment B: Fiscal Year 2018-19 Post Audit Budget Adjustments

Attachment C: List of External Auditors by Entity

Related Items “On File” with the Clerk of the Board:

Fiscal Year Ended June 30, 2019 Annual Audited Financial Reports for:

1. County of Sonoma Comprehensive Annual Financial Report
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 Control and Required Communications
 - Sonoma County Open Space Fiscal Oversight Commission Seventh Annual Report
 - 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) including as a separate attachment:
 - Village Green II (A Project of Sonoma County Community Development Commission)
10. Sonoma County Energy Independence Program Enterprise Fund
11. Sonoma County Fair and Exposition, Inc. (for year ended December 31, 2018)
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. Single Audit Report County of Sonoma
19. Sonoma County Water Agency Schedule of Expenditures of Federal Awards and Auditor’s Report
20. Sonoma County Employees’ Retirement Association Employer Allocations and Schedule of Pension Amounts by Employer
21. County of Sonoma Other Postemployment Benefit Plan Schedule of Employer Allocations and Schedule of Other Postemployment Benefit Plan Amounts by Employer