

GOVERNMENT & ADMINISTRATION COMMITTEE

County Fiscal Issues/Procedures

Citizen Complaint #C23-02/03

Reason for the Report

A citizen's complaint alleges that the Board of Supervisors approved the County 2002-03 budget without adequately preparing for future cost increases and without addressing current deficits.

Scope of the Investigation

The Grand Jury interviewed the following persons:

- The Auditor/Controller, El Dorado County;
- The Account Manager, Department of Social Services;
- The Account Auditor, Auditor/Controller Office;
- The Former Interim Chief Administrative Officer (CAO), El Dorado County;
- The Former Auditor/Controller, El Dorado County;
- The Assistant Auditor/Controller, El Dorado County;
- The entire Board of Supervisors;
- The current Interim CAO.

The Grand Jury also reviewed the following items:

- Trust Fund Reconciled Per Department List for 2001-02;
- Various memos between the Auditor/Controller and the Department of Social Services;
- Various memos between the Auditor/Controller and Board of Supervisors;
- Various memos between the Auditor/Controller and the Interim Chief Administrative Officer;
- Memo's dated April 7, 22, and 23, 2003 from the Auditor/Controller to the Board of Supervisors, CAO, and the Grand Jury.

Background

The complaint alleges that the County has under funded CalPERS. If true this will significantly impact the County's financial condition in the years ahead. After interviewing the entire Board of Supervisors and the new Interim CAO, the committee has concluded that the CalPERS issue is of major importance as the majority of the CalPERS revenues will be affected by retirements and compounded by the current downturn of the Stock Market. To date the CalPERS funding issue has

not been fully resolved by the Chief Administrative Officer or the Board of Supervisors. To continue this course will result in bad news for taxpayers, since it means that the cost of basic government services will soar at the same time the services themselves are slashed.

The second issue addressed in the complaint is the County's trust funds deficit, which have not been resolved for 15 years.

Trust Funds are created for departments to operate particular programs that are often funded by State and Federal sources. In the late 1980s, an outside auditor discovered that the County trust funds were not being balanced and indicated that deposits may have been misplaced. In addition early handwritten ledger entries were incomplete. In the 1990s, an outside auditor noted that trust fund monies were missing. Currently, staff within the Auditor/Controller's Office is assigned to monitor the Trust Fund accounts. Neither staff in the various Departments nor the Auditor/Controller's Office have reconciled all accounts. The Auditor/Controller claims that the reconciliation of a trust fund is primarily the responsibility of the individual Department and the CAO.

The Board of Supervisors reviewed and agreed to transfer allocated monies during 2002/2003 for the deficit trust funds.

The Auditor-Controller's Office has not been consistent in the reporting of trust funds in deficit condition since 1988, and until January 2003 failed to help the departments reconcile these funds. Most County departments have Accounting Officer, but not professional accountants who would understand the technical scope of the work. Often the Departments allow accounting work to be performed by staff in a classification series that does not require extensive accounting background or education.

The Department of Social Services still has eleven deficit trust funds. This caused the Committee to investigate all trust funds in the County.

The Office of Risk Management is presently and appropriately under the direction of the CAO. Risk Management funds, on at least one occasion, have been used to balance the County budget. This appears to be an isolated incident.

Findings

F1. Required funding for CalPERS has dramatically increase due to legislative formulae.

Response to F1: The respondent wholly disagrees with the finding. The annual earning of CalPERS's investment portfolio has not met CalPERS's expectations in recent years due to low returns on investment, sluggish economy and slumps in the stock market. These factors have a direct impact on increases in the employer contribution rate. Further, between March 30, 1999, and December 12, 2000, the County amended its contract with CalPERS three times to provide enhanced retirement benefits to county employees. CalPERS calculated the present value cost of these enhanced retirement benefits to be \$32,675,767, which will be amortized over the next 20 years. Aside from low returns on investments, the enhanced retirement benefits is also a significant factor in the CalPERS rate increases.

- F2. The Department of Social Services still has eleven deficit trust funds.

Response to F2: The respondent disagrees partially with the finding. In discussions with the Auditor/Controller he states that there are more than eleven trust funds that may have unlocated differences.

- F3. The Auditor/Controller Office has not been consistent in the reporting of trust funds in deficit condition since 1988.

Response to F3: The respondent disagrees wholly with the finding. The Auditor/Controller first reported the deficit condition problems with the trust funds in 1989. concerns were voiced in 1990. In 1996 the Auditor/Controller required all trust funds to be reconciled by departments. In 2001 and 2002 the Auditor/Controller again reported deficit condition problems.

- F4. Most County departments have Accounting Officers, but not professional accountants who would understand the technical scope of the work.

Response to F4: The respondent disagrees partially with the finding. Twelve departments have neither an “accounting officer” nor an accountant. These are normally small departments that assign such functions to management staff. Nine departments have an administrative classification that does not require being a professional accountant (Fiscal Administrative Manager, Administrative Services Officer, Administrative Analyst I/II/Sr or Department Analyst I/II), but to require financial experience and management abilities. Nine departments have a professional Accountant or Sr. Accountant on staff, often in addition to one or more of the positions listed above.

- F5. The current Auditor/Controller knew of the alleged trust account deficit since 1995; obviously prior to requesting the Board of Supervisors to authorize covering the account deficit from General Fund monies (\$958,000).

Response to F5: The respondent disagrees with the finding.

- F6. The Board of Supervisors reviewed and agreed to transfer allocated monies during 2002/2003 for the deficit trust funds without a full investigation by the Auditor/Controller

Response to F6: The respondent disagrees wholly with the finding. The Board of Supervisors directed that County Counsel and the Interim Chief Administrative Officer work with the Auditor/Controller to investigate the trust fund deficit.

- F7. All but the Department of Social Service have deficit trust funds that are now accounted for and balanced (See attached Addendum provided by the Auditor/Controller Office).

Response to F7: The respondent disagrees wholly with the finding. The Auditor/Controller states that there are still a significant number of trust funds that require balancing. However, they are not of the magnitude that existed in Social Services.

- F8. Funds allocated to Risk Management have on one occasion been utilized to balance the County budget.

Response to F8: The respondent disagrees wholly with the finding. The respondent cannot recall an episode where Risk Management funds were used to balance the County budget.

Recommendations

- R1. The CAO and the Board of Supervisors should immediately initiate a process to resolve the CalPers funding issue.

Response to R1: The recommendation has been implemented. The actuarial costs received from CalPers have been incorporated into the County's 2003/04 budget. In addition, steps are being taken to project required funding for the next two fiscal years which will include estimated cost increases for CalPers based on preliminary information received during the 2003/04 budget process.

- R2. All financial issues, which have potential impact regarding the County's finances, should receive constant and sedulous attention from the Chief Administrative Officer and the Auditor/Controller's Office.

Response to R2: The recommendation has been implemented: Cooperation and collaboration between the new Interim Chief Administrative Officer and the Auditor Controller is dramatically improved over recent years. While each department has distinct roles in the management and oversight of various financial issues, they are working closely together to review all matters which have a potential impact on County finances in order to provide the best possible information and recommendations to the Board. The new Interim Chief Administrative Officer and the Auditor Controller are committed to maintaining and strengthening their working relationship thereby improving the operational effectiveness of both departments and ultimately the County.

The Chief Administrative Officer and Auditor Controller positions, each in their respective roles, duties, and functions are designed so that a sharing, as well as separation of duties, provides an overall check and balance to ensure that all financial issues receive the appropriate level of review and attention.

The CSAC Guide to County government provides the following descriptions of the roles of the CAO and the Auditor/Controller. The primary function of the CAO is to oversee the preparation, adoption, and administration of the county budget. Working with the elected offices of auditor-controller, treasurer, tax collector and assessor, the CAO also acts as the chief financial officer of the county, coordinating the efforts of those finance-related offices in the preparation and administration of the county budget.

The primary function of the Auditor Controller is to establish the accounting policies and procedures for county government. The Auditor Controller serves as the chief accounting

officer of the county. The position is responsible for budget control, issuing checks, recording revenues, payroll, accounting for assets and liabilities, accounts receivable/payable, long-term debt, and preparation of the county's financial statements.

- R3. County Counsel and the Auditor/Controller should communicate on matters impacting the future of the County legally and financially with review and execution by the Chief Administrative Officer and the Board of Supervisors.

Response to R3: The recommendation will not be implemented because it is unreasonable. With respect to this recommendation, the County Counsel and Auditor Controller do routinely communicate on financial and legal matters; however, read literally, this recommendation purports to reorder the primary functions of the three offices in a way that is unreasonable.

As noted above the primary function of the CAO is to oversee the preparation, adoption and administration of the County budget. The CAO has the primary responsibility to execute the Board's decisions in financial matters utilizing information and advice from all appropriate sources, including the Auditor Controller and County Counsel. In implementing and recommending Board policy, the CAO provides leadership, proposes direction, and establishes an environment within which County government operates, all of which goes far beyond reviewing and executing matters discussed by County Counsel and the Auditor Controller.

The Board of Supervisors establishes policy and provides overall direction to the operation of county government. In performing its duties the Board receives advice and information from the CAO, County Counsel, elected officials, and department heads as well as the public. Within the framework of its elected duties and recognizing the various interests and responsibilities of County government it makes decisions. Again, these duties all go beyond reviewing and executing matters discussed by County Counsel and the Auditor Controller.

The Auditor Controller establishes accounting policies and procedures and serves as the chief accounting officer. County Counsel provides legal advice to the Board and every county officer including the CAO and the Auditor Controller. In no way does the above response intend to diminish the respective roles of County Counsel and the Auditor Controller. Both of these offices are an integral part of creating and maintaining a healthy and well-functioning, local government.

- R4. Director of Human Resources, the Auditor/Controller, and the Chief Administrative Officer should study and recommend to the Board of Supervisors a new job classification series that would encourage the recruitment of more qualified accounting personnel in the Departments.

Response to R4: The recommendation will not be implemented because it is not warranted. The County currently has professional accounting classifications consisting of Accountant I/II, Sr. Accountant, Accountant/Auditor and Supervising Accountant/Auditor. In addition, management classifications, as stated above, include financial management

education and experience requirements. These classifications are already available to any department within the County that has a need for professional accounting services. However, the Human Resources will administer an accounting skills test as part of the recruitment process.

R5. Risk Management funds should not be used to balance the County budget.

Response to R5: The recommendation has been implemented. The respondent cannot recall when Risk Management funds were ever used to balance the County Budget. Risk Management funds will not be used to balance the County budget in the future.

Commendations

The Grand Jury commends the Board of Supervisors’ staff, the assistants, and the clerks for their fine cooperation and competence.

Responses Required for Findings

F1 through F8	El Dorado County Board of Supervisors El Dorado County Chief Administrative Officer
F1 through F7 F2	El Dorado County Auditor/Controller Director, Department of Social Services

Responses Required for Recommendations

R1 through R5	El Dorado County Board of Supervisors El Dorado County Chief Administrative Officer
R2 through R4 R3 R4	El Dorado County Auditor/Controller El Dorado County Counsel Director, Department of Human Resources

Addendum to County Fiscal Issues

#C3-02/03

Furnished by Auditor/Controller

“Fund #41-550-305. Homemaker Chore \$241,937 Negative Unlocated Difference

In the County’s last two independent audits, our outside auditor has recommended that General Fund Cash be transferred to this Trust Fund to eliminate this negative unlocated difference. As has been reported in the past to the Board of Supervisors, this unlocated difference dates back to before June 30, 1992. Although, a complete set of source documents are not available to support transactions recorded prior to July 1, 1993, we were able to determine that for the quarter ending March 31, 1988, \$47,623 of IHSS expenditures were incurred in excess of the allocation established by the State. A \$47, 623 transfer from the General Fund to this Trust Fund should have been recorded during the year ended June 30, 1988, but was not. Further, \$27,008 of advances in total that were due from the State were not recorded in this Trust Fund during the fiscal years ending June 30, 1985, and 1982. During the year ending June 30, 1992, the State reduced advances to this fund by \$47,055 or County’s portion of provider costs. A \$47,055 transfer from the General fund to this Trust Fund should have been recorded during the year ended June 30, 1992, but was not. These three accounting errors bring the unlocated difference down to \$120,251. It appears that the remaining unlocated difference of \$120,251 is the result of State adjustments to advances made prior to July 1, 1987, but, regardless, a \$241,937 cash infusion is needed to make this Trust Fund whole.

Fund 41-550-302. Welfare Assistance \$758,767 Negative Unlocated Difference

In the County’s latest independent audit, our outside auditor recommended that General Fund Cash be transferred to this Trust Fund to eliminate this negative unlocated difference. This \$758,767 unlocated difference dates back prior to July 1, 1992. Because a complete set of source documents are not available to support transactions recorded prior to July 1, 1993, it is extremely unlikely that this unlocated difference can be identified by either a county employee or an outside accounting firm.

Fund 41-550-308. Food Stamp Advancement \$156,092 Positive Unlocated Difference

In the County’s latest independent audit, our outside auditor recommended that the balance in this Trust Fund, along with a transfer from the General fund be combined to eliminate other negative unlocated differences discussed in this letter. This \$156,092 unlocated difference dates back prior to July 1, 1998. Because a complete set of source documents are not available to support transactions recorded prior to July 1, 1993, it is extremely unlikely that this unlocated difference can be identified by either a county employee or an outside accounting firm.

Fund 41-550-304. MediCal and CMA, \$87, 527 Positive Unlocated Difference

In the County’s latest independent audit, our outside auditor recommended that the balance in this Trust Fund, along with a transfer from the General Fund be combined to eliminate other negative unlocated differences discussed in this letter. This \$87,527 unlocated difference dates back prior to June 30, 1994. Because a complete set of source documents are not available to support transactions

recorded prior to June 30, 1994, it is extremely unlikely that this unlocated difference can be identified by either a county employee or an outside accounting firm.

Fund 41-550-303. Welfare Administration, \$200,989 Negative Unlocated Difference

In the County's latest independent audit, our outside auditor recommended that General Fund Cash be transferred to this Trust Fund to eliminate this negative unlocated difference. The vast majority of this \$200,989 unlocated difference dates back prior to July 1, 1998, all of it prior to July 1, 1993. Because a complete set of source documents are not available to support transactions recorded prior to July 1, 1993, it is extremely unlikely that this unlocated difference can be identified by either a county employee or an outside accounting firm."