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## **TEHAMA COUNTY AUDIT REPORT**

### **AUDIT COMMITTEE**

#### **SUMMARY**

The Single Audit Act of 1984 requires governmental entities that expend more than \$750,000 in federal funds to have an organization-wide financial and compliance audit on an annual basis. The Single Audit has specific components which must be included in the audit. It is the Tehama County Grand Jury's responsibility to confirm that this audit has been completed and to investigate any findings or questioned costs.

#### **BACKGROUND**

The Auditor-Controller is the chief accounting officer for the County. His responsibilities include the accounting of the County's revenue, expenditures, assets, liabilities, fund balances and related fiduciary responsibilities in accordance with generally accepted accounting principles. Among these duties are payroll and payroll reporting, auditing vendor claims, issuing warrants (checks), public assistance accounting, extending the property tax roll and apportioning the collections, financial statements and the compilation of the county budget. The goal of the department is to provide accurate and timely financial information to the Board of Supervisors, the State of California, other county departments, special districts, and the citizens of Tehama County as required by the Governmental Accounting Standards Board.

Each county department is responsible for its own accounting systems and personnel, and each is responsible to submit correct information to the external auditors. The Auditor-Controller does not directly supervise or provide oversight for the day-to-day accounting done by each department, but may provide training if requested. Job descriptions, education and experience requirements, and compensation vary, depending on the department.

The Tehama County audit for the 2019-20 fiscal year was conducted by Smith & Newell CPAs who have been conducting the County's audits for the last 8 years. The audit was initiated in August of 2020, and the final audit report was issued on March 4, 2021. Audited financial statements were produced in accordance with Generally Accepted Accounting Principles (GAAP) and audited according to Government Auditing Standards (GAS).

The auditors reported on internal control and compliance, and included the Schedule of Expenditures of Federal Awards (SEFA). They also prepared a Schedule of Findings and Questioned Costs. This Schedule is significant in that Findings (i.e. Material Weaknesses or Significant Deficiencies) affect the ability of the County to obtain future funding, grants, or awards. If findings are identified, corrective action plans and/or responses from the county are required and are included in the final audit report.

## **METHODOLOGY**

The Grand Jury reviewed the Audit Report for the year ended June 30, 2020 with an emphasis on the Single Audit Act Reports and Schedules. The Grand Jury interviewed the Auditor-Controller and senior leadership with accounting responsibilities in a large county department. The Grand Jury also reviewed policy guidance for closeout reporting issued by the Auditor-Controller and related guidance and instructions issued by a county department. The Grand Jury sought to understand the current and prior year findings in the audit report.

## **DISCUSSION**

The Single Audit Schedule of Findings and Questioned Costs identified one finding in the Financial Statements. There were no Questioned Costs or Material Weaknesses, which are the most serious, but there was a Significant Deficiency noted. The American Institute of Certified Public Accountants (AICPA) defines a Significant Deficiency as “a deficiency in the internal control that is less severe than a Material Weakness, but still judged important enough to merit attention by those charged with governance”. The Grand Jury was concerned as this is a repeat finding from the prior year.

### **Significant Deficiency 2020-001 Audit Adjustments**

The audit report stated that the County had not reconciled and adjusted all accounts on the general ledger to adequate documentation, with the result that the financial statements as presented to them contained misstatements and required adjustment. There were no questioned costs identified as a result of this review and adjustment process.

As noted in previous Grand Jury reports, this is a complex and recurring issue that is more process and timing related than a technical deficiency. The Auditor’s office is required to present financial records before mid-August when the audit fieldwork begins. This requires each department to submit financial closeout information to the Auditor’s office well in advance of the audit. In several cases, the departmental information is based on estimates and projections as they may receive federal, state, and grant reimbursements months in arrears. Those reimbursements are often received well after the start of the audit and final amounts may differ from their projections. County departments update their data and the related documentation as reimbursements are received, but this changes the financial information and schedules originally provided to the external auditors, resulting in their concern about misstatements and adjusting entries.

Because this was a prior finding, during 2020-21, the Auditor-Controller issued written policy guidance to county departments regarding closeout reporting. Additionally, communication and meetings between staff from the Auditor’s office, and department financial managers, increased in order to improve the accuracy of projections and the format for presenting the information. The Auditor’s office also implemented a more stringent review and reconciliation of the year end reports before submission to the external auditor. However, it is the opinion of the Grand Jury

and the key financial staff who were interviewed, that this problem cannot be entirely eliminated due to the timing of reimbursements, changes in reimbursement rates and other factors outside of local control; as well as the timeframe required by law for the audit to be completed.

### **FINDINGS**

F1. The County has effectively implemented corrective actions to address the findings of the 2018-19 Single Audit.

F2. The issues and corrective action regarding Significant Deficiency 2020-2021 were adequately addressed by the Auditor-Controller and departmental staff.

### **COMMENDATION**

R1. The Auditor's Office and county departments should be congratulated on their effective implementation of corrective actions, and their focus on continued improvements.

**REQUIRED RESPONSE: None**