



## Legislation Details (With Text)

**File #:** 19-0322      **Version:** 1

**Type:** Agenda Item      **Status:** Approved

**File created:** 2/21/2019      **In control:** Board of Supervisors

**On agenda:** 4/9/2019      **Final action:** 4/9/2019

**Title:** Health and Human Services Agency recommending the Board:  
 1) Receive and file the California Tahoe Emergency Services Operations Authority's Financial Audit Reports for Fiscal Year 2015-16; and  
 2) Receive and file the California Tahoe Emergency Services Operations Authority's Financial Audit Reports for Fiscal Year 2016-17.

**FUNDING:** Fee-for-service and local tax revenue to County Service Area No. 3.

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. A - CSA3 Audit Letter 2016-17 4/9/19, 2. B - Audit Response Letter 4/9/19, 3. C - CSA3 Audit rpt 2015-16 4/9/19, 4. D - Audit Response Letter 2015-16 4/9/19

Date	Ver.	Action By	Action	Result
4/9/2019	1	Board of Supervisors	Approved	Pass

Health and Human Services Agency recommending the Board:  
 1) Receive and file the California Tahoe Emergency Services Operations Authority's Financial Audit Reports for Fiscal Year 2015-16; and  
 2) Receive and file the California Tahoe Emergency Services Operations Authority's Financial Audit Reports for Fiscal Year 2016-17.

**FUNDING:** Fee-for-service and local tax revenue to County Service Area No. 3.

**DISCUSSION / BACKGROUND:**

California Tahoe Emergency Services Operations Authority (CalTahoe) was organized under the laws of the State of California on January 24, 2001 and began operations on September 1, 2001. CalTahoe is a joint powers agency (JPA) entity, in accordance with California Government Code Sections 6500 - 6539.3, between the City of South Lake Tahoe Fire Department, and the Lake Valley Fire Protection District.

The County contracts for ambulance transportation with CalTahoe via Agreement 164-S1211. As a requirement of the contract, CalTahoe must submit annual audit reports to the County for review. The Financial Audit Report(s) for FY 2015-16 and 2016-17 are complete and are being provided to the Board for receipt and filing.

As part of the audit requirements, the auditor considers CalTahoe's internal control over financial reporting as a basis for designing their audit procedures. During their review, the auditor identified a deficiency in internal control that they consider to be a material weakness that allows a reasonable possibility that a material misstatement in the financial statements would not be prevented, or detected and corrected, on a timely basis.

## **2015-16 AUDIT:**

### **Findings - Summary Schedule of Fiscal Year 2015-16 Audit Findings:**

#### Finding 2016-001:

A number of audit adjustments were necessary to properly report CalTahoe's financial activity in accordance with generally accepted accounting principles (GAAP), which is an indication of missing internal controls over financial reporting.

#### CalTahoe Management Response:

CalTahoe was in the process of assuming responsibility for the JPA's accounting and had difficulty obtaining documentation for checks cut and receipts collected near the June 30, 2016 audit date. Now that the JPA has control of the general ledger, it will be possible to reconcile individual transactions and ensure the general ledger is updated prior to the audit. The JPA is currently working with the contract accountant to implement these recommendations.

**Current Status:** *The issue was not resolved during 2016-17; Finding 2017-11 is a continuation of this finding.*

## **2016-17 AUDIT:**

### **Findings - Summary Schedule of Fiscal Year 2016-17 Audit Findings:**

#### Finding 2017-001:

A number of audit adjustments were necessary to properly report CalTahoe's financial activity in accordance with generally accepted accounting principles (GAAP), which is an indication of missing internal controls over financial reporting.

In response to finding 2016-001 during the FY 2015-16 Audit, CalTahoe hired a contract accountant and set up a new accounting system, which resulted in significant additional workload to create new processes and reports and did not leave enough time to review ending balances and post entries necessary to properly report financial activity in the general ledger.

Recommendation: CalTahoe staff should work with the contract accountant to review invoices paid and receipts collected near year-end to ensure the transactions are reported in the period the related work was performed. CalTahoe should post the audit adjustments provided to ensure fund balance rolls-forward and should use a separate set of self-balancing accounts for the government-wide adjustments related to capital assets. Additional time should also be spent reviewing the general ledger detail from QuickBooks to ensure account coding in entries in the income statement each month are appropriate and according to where the amounts were budgeted.

CalTahoe Management Response: The QuickBooks system and reports are set up and CalTahoe staff is now more familiar with its capabilities. Processes have been put into place to review the account coding and general ledger detail regularly to ensure transactions are appropriately recorded.

### **Current Year (FY 2016-17) Recommendations:**

In addition to Finding 2017-001, CalTahoe Financial Audit report cites multiple recommendations as follows:

1. The inventory observation should be performed at or near year-end and the auditors should be present for the physical count. Once the inventory observation is completed, the

change in inventory should be recorded and the non-spendable fund balance should be trued-up to the ending inventory balance.

**Current Status:** *CalTahoe has purchased an inventory software system to keep track of intake, disposal, and use of medical supplies. The information gathered from this software will also help to address the capital asset additions and disposals.*

2. A compensated absences detail should be produced from the Paychex system or created manually at year-end that lists the earned time off (ETO) hours earned, pay rate and dollar amount earned and an entry should be posted in the general ledger to record the liability.

**Current Status:** *CalTahoe staff has been in contact with representatives of Paychex and will now be able to produce this report on a quarterly basis.*

3. The Executive Director should review the general ledger for each check run to ensure revenues and expenses are posted in the proper general ledger accounts according to the budget and should review the general ledger detail again at year-end as a final check for misclassified entries. Reclassifying entries should be posted before the audit begins.

**Current Status:** *The Executive Director now reviews monthly general ledgers for accuracy as well as year-end to ensure any mistakes or discrepancies are caught and addressed.*

4. Due to the small number of CalTahoe staff, the performance of controls that provide separation of duties is important to limit the opportunity for staff to make unauthorized transactions. The audit emphasizes the importance of documenting all controls to provide evidence that two staff or a staff person and the contract accountant were involved in important controls. This can be accomplished by maintaining the documentation with an initial of the preparer and reviewer of the control whenever a control is performed. Scanned copies of approved documents should be appropriate for this purpose.

**Current Status:** *Both the Executive Director and the Office Administrator review and initial all controls prior to submission.*

5. The audit noted that the CPA hired by CalTahoe may enter new vendors into the QuickBooks accounts payable module and signs checks, which leaves CalTahoe vulnerable to unauthorized transactions occurring. Although the Executive Director subsequently reviews checks cut, we recommend requiring the Executive Director's signature on all checks (dual signatures) as a preventive control.

**Current Status:** *No response.*

6. The audit recommends CalTahoe add or enhance the following policies, possibly by adopting policies of member agencies and adapting them for CalTahoe's circumstances: Investment policy describing authorized investments; capital asset policy describing items that should be capitalized versus expensed and a capitalization threshold; employee expense reimbursement and travel policy describing expenses that may or may not be reimbursed; conflict of interest/whistleblower policy describing actions that should be reported and the reporting relationships in different circumstances, such as when the Executive Officer is suspected of committing a reportable action; and finally adding a policy for medicine and medical supplies inventory observations and how often the inventory should be performed.

**Current Status:** *CalTahoe has already begun to adopt and develop new policies in order to address these deficiencies.*

7. The audit recommends CalTahoe consider developing a strategic plan that may be used by the Executive Director, along with the information in his employment agreement, to prioritize his workload and be used by the Board to help evaluate the Executive Director's performance.

**Current Status:** *The CalTahoe Board of Directors did not adopt this recommendation, feeling as the contract of the Executive Director provides a proficient workload agreement.*

8. CalTahoe should consider establishing a commitment of fund balance for the unfunded Earned Time Off (ETO) liability for CalTahoe's staff hired during the year ended June 30, 2017, to ensure resources are available to pay any existing liability if CalTahoe dissolves.

**Current Status:** *CalTahoe has budgeted for this in the 2018-19 Fiscal Year Preliminary Budget which was presented to, and accepted by, the Board of Directors on July 9, 2018.*

9. CalTahoe agreed to reimburse member agency "payroll," but it did not appear that CalTahoe and member agency executed a written agreement defining the specific components of payroll that will be reimbursed. The audit recommended CalTahoe execute a written agreement with the member agency discussing which payroll related items will be reimbursed as part of the flat amount provided to members for payroll. We recommend the agreement specifically address, in addition to member agency salaries, whether overtime, temporary help, payroll taxes, health insurance premiums, workers compensation insurance premiums, compensated absences expenditures (i.e., any applicable vacation, sick leave, PTO, compensatory time off, etc.,) contributions to deferred compensation plans, contributions to retirement plans, contributions to other postretirement benefit (OPEB) plans and any other benefits paid by the member agency will be reimbursed. The audit recommends the agreement specifically address whether any unfunded liabilities for member agency compensated absences, pension plans, and OPEB plans will be funded by CalTahoe or whether any unfunded liabilities will be the responsibility of the member agency. If the unfunded liabilities will be partially or fully funded by CalTahoe, the recommendation is that the agreement should specifically define how the unfunded liabilities for which CalTahoe is responsible will be computed and funded, including if CalTahoe dissolves without sufficient cash to fund its share of the unfunded liabilities. We recommend CalTahoe require the member agency provide support from its general ledger for payroll expense incurred along with the related bill.

**Current Status:** *No response.*

Additionally, CalTahoe is considering the following recommendations:

1. Invoices for work performed before year-end that are paid after year-end should be reported as accounts payable and expenditures. Contract expenditures should be reviewed to ensure the invoice for June services were expensed prior to year-end, including the invoice for Lake Valley Fire Protection District payroll and other miscellaneous expenses.
2. Invoices paid before year-end for future period expenses should be reported as prepaid expenditures, such as prepaid maintenance agreements.
3. The general ledger should be reconciled to the Bank of the West account balance used for amounts committed for future ambulance purchases and reclassifying entries should be posted in the committed fund balance account for current activity, including interest income earned. We recommend approval of changes in the committed fund balance be approved with Board Resolutions to provide documentation of approved changes.
4. Audit adjustments should be posted in the general ledger and fund balance accounts should be reconciled to the prior year audited financial statements to ensure adjustments have been properly posted.
5. The capital asset detail list should be updated for additions and disposals at year-end and depreciation expense and the gain or loss on sale of capital assets should be recorded in the general ledger. If a separate inventory list is used, the inventory list should be reconciled to the depreciation list in the audit and the asset numbers, purchase dates, descriptions and amounts listed should be made consistent between the two schedules and asset numbers should be listed on disposals instead of being replaced by the word "deleted" to make it easier to identify which asset was eliminated. Once the capital asset balance is updated, the

investment in capital assets in the equity section should be trued-up to the capital asset balance.

6. Any amounts withheld from County Service Area #3 revenue should be reclassified to the related expense account so the contract service revenue agrees to the amount approved by the County.
7. Standby fees should be reported in a separate account from County Service Area #3 payments.

**ALTERNATIVES:**

The Board could choose to not accept and file the CalTahoe Financial Audit Reports for either FY 2015-16 or FY 2016-17.

**PRIOR BOARD ACTION:**

- 1) 1/10/17, 11-0758 HHS CalTahoe FY 2013-14 and FY 2014-15 Annual audit reports

**OTHER DEPARTMENT / AGENCY INVOLVEMENT:**

Auditor-Controller

**CAO RECOMMENDATION:**

It is recommended that the Board receive and file these reports.

**FINANCIAL IMPACT:**

There is no Net County Cost associated with this Agenda item.

**CLERK OF THE BOARD FOLLOW UP ACTIONS:**

- 1) Clerk of the Board to receive and file the California Tahoe Emergency Services Operations Authority's annual Financial Audit Reports for FY 2015-16.
- 2) Clerk of the Board to receive and file the California Tahoe Emergency Services Operations Authority's annual Financial Audit Reports for FY 2016-17.

**STRATEGIC PLAN COMPONENT:**

Health and Human Services Agency Strategic Plan Goal 2 - Fiscal Responsibility: To develop and sustain Agency resources through thoughtful planning and efficient practices, and foster accountability and ownership at all levels of the Agency.

**CONTACT**

Donald Semon, Director