

**HUMBOLDT COUNTY ASSOCIATION  
OF GOVERNMENTS**

**COMMUNICATION WITH THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT LETTER**

**FOR THE YEAR ENDED  
June 30, 2013**

**COMMUNICATION WITH THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT LETTER**

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# ANDERSON, LUCAS, SOMERVILLE & BORGES, LLP

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Board of Directors  
Humboldt County Association of Governments  
Eureka, California

In planning and performing our audit of the financial statements of the governmental activities and the business-type activities of the Humboldt County Association of Governments (HCAOG) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered HCAOG's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HCAOG's internal control. Accordingly, we do not express an opinion on the effectiveness of HCAOG's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed later in this letter, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider certain of the items discussed later in this letter to be significant deficiencies.

In addition, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist the Humboldt County Association of Governments in implementing the recommendations.

Board of Directors  
Humboldt County Association of Governments  
Eureka, California

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Board of Directors  
Humboldt County Association of Governments  
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This communication is intended solely for the information and use of management, the Board of Directors, others within the organization and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

We thank the Humboldt County Association of Government's staff for its cooperation during our audit.

*Anderson, Lucas, Somerville, & Borges*

Fortuna, California  
December 6, 2013

## REQUIRED COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the governmental activities and the business-type activities of the Humboldt County Association of Governments (HCAOG) for the year ended June 30, 2013. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 23, 2013. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Humboldt County Association of Governments are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Humboldt County Association of Governments during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop any accounting estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. We noted no disclosures that were considered sensitive because of their significance to the financial statement users.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the uncorrected misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Board of Directors  
Humboldt County Association  
of Governments  
December 6, 2013

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 15, 2013.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Humboldt County Association of Governments financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Humboldt County Association of Governments auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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This information is intended solely for the use of the Board of Directors of the Humboldt County Association of Governments and its management and is not intended to be, and should not be, used by anyone other than these specified parties.

**MANAGEMENT COMMENTS AND RECOMMENDATIONS**

**PRIOR YEAR RECOMMENDATIONS**

Transportation Development Act Fund Eligibility

As part of our compliance testing of the various transit claimants, we reviewed eligibility for funds as calculated under Article 4, Section 6634(a) of the California Administrative Code. For certain prior fiscal years, the following claimants were determined to have received excess operational TDA funds:

	<u>6/30/11</u>	<u>6/30/12</u>
City of Arcata - Specialized Services	\$ -	\$ -
City of Arcata - General Services	\$ -	\$ -
City of Eureka - General Services	\$ 86,666	\$ 26,259
City of Fortuna - Specialized Services	\$ 26,618	\$ 11,032

In accordance with the rules and regulations of the Transportation Planning Agency, these items are required to be adjusted on a succeeding year's TDA claim. They can also be re-identified as monies claimed for capital purchases if sufficient reserves have been used to help purchase new capital assets.

The necessary corrective actions for the year ended June 30, 2011 were included in the claims filed by the cities for the year ended June 30, 2013. The identified amounts for the year ended June 30, 2012 were addressed as part of the claims filed for the year ended June 30, 2013 or ending June 30, 2014.

City of Eureka and County of Humboldt Contract Review

Currently, the City of Eureka and the County of Humboldt have an agreement whereby the County contributes 27% of the net operating costs of the Eureka Transit System. This is intended to cover the areas served by the system that fall outside the Eureka city limits and in the County's jurisdiction. At the completion of each audit cycle, a reconciliation of budgeted costs to actual costs for the year is required, and any calculated excess or shortfall is required to be adjusted into the next year's claim amount.

It has been many years since this original agreement was entered into by the City and County, and it is likely that circumstances and events have occurred which would make it beneficial for this agreement to be reviewed and modified, if necessary. Items such as the contribution percentage, requirements for periodic system performance reports, enforcement and compliance issues are just a few of the areas where changes may be considered. We recommended that the City and County begin the process of reviewing this agreement for any possible modifications.

This process, involving both City and County staff was initiated during the year ended June 30, 2010, and remains an ongoing project. Input from a report prepared for HCAOG has resulted in several options being presented to the parties. A final decision on whether this allocation % needs to be modified is expected to be reached during the current fiscal year.



## **PRIOR YEAR RECOMMENDATIONS - Continued**

### Administrative Findings and Recommendations

We noted various items and situations relating to the Humboldt County Association of Governments in its capacity as the Regional Transportation Planning Agency (RTPA). Those items are as noted in the following paragraphs:

#### 1. SAFE Implementation Plan Update and Review

The Service Authority for Freeway Emergencies (SAFE) plan was originally developed based on the local county need for remote access to the public safety system. It was adopted in the early 1990's. Since that time, various aspects of the initial implementation plan have been brought into service. Additionally, over the years, significant surplus funds have been generated in this County fund. Given the length of time since the initial plan, and the large amount of unspent funds, it seems appropriate for HCAOG to consider an update of the SAFE plan as well as development of future spending goals in accordance with the plan's original intent.

A SAFE Implementation Plan Update and Review was incorporated into the RTPA's Overall Work Program for the 2011-12 fiscal cycle. A portion of this review, relating to ADA compliance is currently underway.

#### 2. RTPA Accounts at County-Auditor's Office; Records and Reports and Ongoing Accounting

In its capacity as the Regional Transportation Planning Agency (RTPA), HCAOG utilizes various County trust funds. The accounting of these funds are handled by the Auditor-Controller's office. Over the years, as HCAOG's involvement in the transportation planning process has increased, there has been a need to generate accounting information and reports which are better suited for the ongoing management of these funds.

Such activities currently include the periodic transfers between various funds to reimburse costs and to properly reflect activity in the correct fund; transfer interest earnings and other residual fund amounts between funds where needed; generation of more relevant and pertinent monthly or periodic reports and account details; and creation of systematic processes for the treatment of payments, receipts and other regular accounting activities of the RTPA.

Additionally, it would be useful for HCAOG to research certain reserve account balances that exist in several of the funds to determine any required potential activities, projects or fund transfers.

Various meetings and discussions have been held with the County Auditor's office in order to enhance the current reporting issues, and these continue to be an area of effort for HCAOG staff. As for the analysis of the reserve account balances, the various funds and amounts have been identified, and the necessary research and review process has begun, with the hope of resolving these matters in the current fiscal year.

## **PRIOR YEAR RECOMMENDATIONS - Continued**

### Administrative Findings and Recommendations - Continued

#### 3. Consideration of Oversight Requirements for Non-TDA Claimants

Under the current set of operating rules and regulations for HCAOG, there is no requirement for non-TDA claimants who are ultimate providers of TDA-funded services, to undergo audit, review or any form of outside system inspection. As long as the provider is under contract with the TDA claimant to provide such service, the TDA code is being met.

As part of the proposed Rules & Regulations update, HCAOG might consider the desirability that such contracts should include some type of such oversight process similar to what the TDA claimants themselves undergo each year, including any related funding mechanism.

No formal change in policy was incorporated into the updated Rules & Regulations and this continues to be a potential discussion point for the various affected entities as part of ongoing Technical Advisory Committee meetings.

#### Fixed Assets Reporting and Tracking

As a governmental fund type, HCAOG follows the practice of reporting all disbursement of funds during any particular year as a fund expenditure. This applies to the expenditure of funds for long-lived capital assets, such as computers, office furniture and fixtures and other similar items. One of the additional requirements for governmental funds is to include a cumulative amount of such expenditures, which relate to such assets still on hand and in use, as part of their governmental funds. Historically, this information has not been maintained by HCAOG.

Additionally, under the financial reporting model adopted by the Governmental Accounting Standards Board several years ago, (GASB 34), when reporting activity in the Government-wide financial statements, those assets should be depreciated rather than reported as an expenditure.

We recommend that HCAOG consider accumulating the detailed listing of the capital assets under their control and ownership. This would allow for the proper reporting in both financial statement models under GASB 34 - the Government-wide statements and the Funds statements. Additionally, such a listing would be useful in terms of maintaining and safeguarding such assets, as the detailed fixed asset inventory listing could be periodically compared to actual assets on hand to ensure their continued existence.

This project, which could include the establishment of a formal Fixed Asset Capitalization Policy, is in the process of being implemented. Staff has developed an informal process for beginning the accumulation of the required information.

## **PRIOR YEAR RECOMMENDATIONS - Continued**

### Fund Eligibility Equipment Reserve Tracking By Claimants

As part of each year's compliance testing for transit operators (County, HTA, Eureka, Arcata & Fortuna), there is a determination of maximum TDA fund eligibility. When an operator is found to have received more in current TDA funds than they are eligible for under the TDA code, one of the remedies has been to reclassify and re-identify such excess as an amount which will be used for past or future capital purposes. In most instances, the operators do not always clearly indicate the amounts of such restricted funds, nor is it always clear when the future expenditure of such funds has occurred.

This process was not included in the recently adopted TDA Rules and Regulations, and has not yet been formally required to be part of the annual reporting process. As this remedy continues to be one of the more common approaches to addressing excess TDA fund eligibility matters, it should continue to be considered in order to ensure that operators are properly reporting, tracking and documenting their ultimate compliance with the proper use of their claimed TDA funds.

### Required Report to State Controller's Office

Section 6665 of the TDA code requires expenditures of monies received for streets and road purposes under Section 99400(a) be reported to the State Controller's office in accordance with annually established deadlines.

For the year ended June 30, 2012, the City of Rio Dell did not meet this State filing deadline. This was an isolated situation which would not seem to be repeated; and the report for the year ended June 30, 2013 was timely filed by the appropriate deadline.

### City of Eureka and Humboldt Transit Authority Contract Surplus Adjustment

The contract between the City of Eureka and the Humboldt Transit Authority to operate the Eureka Transit System requires any fund surplus to be carried over to the next year to assist with operating expenses for the following year. Any carryover from the Eureka Transit System operation at the end of the contract term shall be returned to the City of Eureka. Unanticipated increase in the cost of operating Eureka Transit System will be compensated only after action by the Eureka City Council.

The completion of the most recent 3-year contract cycle ended as of June 30, 2012. Any required or agreed-upon contract adjustments were incorporated into the operating contract for the next cycle for the period covering July 1, 2012 through June 30, 2014.

**PRIOR YEAR RECOMMENDATIONS - Continued**

State Transit Assistance Funds Tracking and Reporting

Most of the transit operators (County, HTA, Arcata, Eureka, Fortuna) claim and expend State Transit Assistance Funds (STAF) each year. In recent years, the annual amounts and certainty of each year's funding stream of such funds has been inconsistent. Additionally, many of the claimants have chosen to identify and claim funds for numerous projects and capital assets each cycle.

Because of the timing of how funds are received, allocated and distributed to the claimants, it has become more of a challenge to fully track the expenditures of all funds in order to fulfill the STAF grant obligations. We recommend that a more formalized reporting and accounting process be developed for all STAF claimants in order to fully document their expenditures for each grant cycle, including a status summary of prior year unspent STAF funds from the past three to four claim cycles.

Progress on this project has been implemented, including revisions to the annual claim request forms and documentation.

**CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

Transportation Development Act Fund Eligibility

As part of our compliance testing of the various transit claimants, we reviewed eligibility for funds as calculated under Article 4, Section 6634(a) of the California Administrative Code. For the year ended June 30, 2013, the following claimants were determined to have received excess operational TDA funds:

	<u>2013</u>
City of Arcata - Specialized Services	\$ 3,593
City of Eureka - General Services	\$ 125,207
City of Eureka - Specialized Services	\$ 28,459
City of Fortuna - Specialized Services	\$ 823

In accordance with the rules and regulations of the Transportation Planning Agency, these items are required to be adjusted on a succeeding year's TDA claim. They can also be re-identified as monies claimed for capital purchases if sufficient reserves have been used to help purchase new capital assets.

County Transit Claim for ETS Operating Subsidy

The County's annual claim for TDA funds generally includes an amount for their share of the operating costs of the Eureka Transit System. At the completion of each annual audit cycle, a reconciliation of projected costs to actual costs is required, and any calculated excess or shortfall is required to be adjusted into the next year's claim amount.

The calculated adjustment for the year ended June 30, 2011, while available, was not reflected in the claim filed by the County for the year ended June 30, 2013. This amount, which was calculated to be \$2,698, should be included with adjustments from any available subsequent years as soon as practical when the next TDA claim is prepared and filed by the County.

**CURRENT YEAR COMMENTS AND RECOMMENDATIONS - Continued**

City of Rio Dell TDA Fund Deficit

As of June 30, 2013, the Transportation Fund of the City of Rio Dell was reporting a deficit Fund Balance of \$3,683. During the current 2013-14 fiscal year, the City is claiming and receiving approximately \$14,000 of TDA funds in excess of the budgeted TDA fund expenditures for the year in order to cover this deficit.

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The previous comments, observations and recommendation are meant to be constructive suggestions on ways to improve the procedures and policies of the entities named in the first paragraph of this letter. It is not intended to be all-inclusive of the areas where improvements might be achieved. Should you have any questions regarding these comments or any other matters, please contact us.

In conclusion, we would like to thank the personnel of the Humboldt County Association of Governments, the Humboldt County Auditor's staff, and the respective employees of the various claimants for their help and assistance during the course of our audit.

Very sincerely,

*Anderson, Lucas, Somerville, & Borges*

**ANDERSON, LUCAS, SOMERVILLE & BORGES, LLP**