

**HUMBOLDT COUNTY ASSOCIATION
OF GOVERNMENTS**

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

**FOR THE YEAR ENDED
June 30, 2019**

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

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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, each major fund, and the aggregate remaining fund information of the Humboldt County Association of Governments (HCAOG) as of and for the year ended June 30, 2019, 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 a 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. 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.

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
May 27, 2020

REQUIRED COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Humboldt County Association of Governments (HCAOG) for the year ended June 30, 2019. Professional standards require that we provide you with 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 November 4, 2019. 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. No significant estimates were encountered during the audit.

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 clearly 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.

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 May 27, 2020.

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.

Other Matters

We were engaged to report on the supplemental information included as Schedules 1-5 on pages 28-32, which accompany the financial statements but are not RSI (required supplementary information). With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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 the prior fiscal years, the following claimants were determined to have received excess operational TDA funds:

	<u>6/30/17</u>	<u>6/30/18</u>
City of Arcata-General Services		\$179,953
City of Eureka-General Services (Revised)	\$73,379	
City of Fortuna-Specialized Services	\$33,418	\$ 22,474

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 identified amounts for these prior years were either addressed as part of the claims filed for the year ended June 30, 2019, or remain to be resolved on a future claim.

Administrative Findings and Recommendations

We noted 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 times, 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 a prior Overall Work Program. A portion of this review, relating to ADA compliance is currently underway.

Additionally, an RFP covering call box installation, removal and repairs was recently completed and will be issued soon.

PRIOR YEAR RECOMMENDATIONS - Continued

Transportation Development Act Claims

The City of Trinidad did not file annual TDA claims for the years ended June 30, 2017 and 2018. Funds are made available each year to claimants in order to support transportation and other related activities. While not required, sound administrative practices make such a process beneficial.

The City of Trinidad filed claims for the years ended June 30, 2017 and 2018 during the current fiscal year ended June 30, 2019.

Greyhound Bus Program - City of Arcata

During various years, the Greyhound program operated at a loss. In order to ensure that TDA funds have not been used to subsidize this program, the City has established the portion of the fund balance which related to prior year surpluses generated by the Greyhound program, as well as other non-TDA revenue sources. As of June 30, 2015, such surpluses were in excess of accumulated losses in the amount of \$12,190.

During the years ended June 30, 2017 and 2016, the program once again operated at a deficit, in the amounts of \$33,496 and \$39,251 respectively. After accounting for current year additional revenue sources, there is an overall deficit for the program of \$50,975 as of June 30, 2017.

The City will need to evaluate and review their expenditure allocation to this program, as well as consider requesting an increase in the commission rate paid by Greyhound in order to fully cover their ongoing expected program costs. Or, alternatively, they would need to consider subsidies from other funds or sources in order to offset the higher costs. They need to establish a plan for generating sufficient additional revenues to offset the current deficit balance.

During the year ended June 30, 2018, the City began implementing program changes and altering the amounts of City costs being charged to the program. During the year, the program operated at a small deficit of \$1,262, bring the cumulative shortfall to \$52,237.

As the current audit for the City of Arcata is not yet complete, there is no update to this finding at this time.

Fare Box Recovery Ratio - City of Eureka

As part of our compliance testing of the various transit claimants, we reviewed the farebox recovery ratio as calculated under Article 4, Section 6633.5 of the California Administrative Code. This requirement compares the portion of the system operating costs which are recovered through the recorded transit fare revenues. For the years ended June 30, 2018 and 2017, the City of Eureka did not meet its required Fare Box Recovery Ratio for Specialized Transit services. The ratio achieved were 8.7% and 8.3%, rather than the required 10%.

In accordance with Code Section 6633.9(a), the year ended June 30, 2017 was considered the one time grace year, and no eligibility recalculations are required. However, the noncompliance for the year ended June 30, 2018 will require the eligibility recalculations under Code Section 6633.9 to be implemented for the year ending June 30, 2020.

PRIOR YEAR RECOMMENDATIONS - Continued

Claimant Filing Responsibilities and Deadlines

Claimants requesting an allocation from the Local Transportation Fund should file a claim the Transportation Planning Agency in accordance with the Rules and Regulations established by the TPA pursuant to Public Utilities Code section 99261. This required filing date is April 1 of each year, for claims for funds for the subsequent fiscal year.

Most of the local claimants regularly do not meet this deadline, and in many instances, this situation poses little or no complications. However, recent failures to file the claims by the required deadlines have caused significant cash shortfalls for some of the entities and affiliated transit providers, leading to fiscal hardships and other problems.

HCAOG should consider a more active and forceful implementation of this requirement, in order to minimize or eliminate such potential and actual problems.

There was little improvement noted in this area during the current year audit.

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, 2019, the following claimants were determined to have received excess operational TDA funds:

	<u>2019</u>
City of Fortuna - Specialized	\$ 16,105

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.

Annual TDA Claimant Audit

Section 6664 of the California Administrative Code requires an annual audit of each claimant of TDA funds during the year. These audits are due by December 31st each year, with an allowable 90 day extension if requested by the responsible entity. No allocation of TDA funds shall be made to any claimant that is delinquent in its submission of fiscal and compliance audit report.

The City of Arcata has not completed the required audit as of the extended March 31, 2020 deadline. HCAOG is the responsible entity for ensuring such compliance and will be required to withhold any future TDA funds until such audit has been completed and submitted.

Board of Directors
Humboldt County Association
of Governments
May 27, 2020

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, LLP

Anderson, Lucas, Somerville, & Borges