



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Supervisors  
County of Mendocino  
Ukiah, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Mendocino, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the County of Mendocino's basic financial statements, and have issued our report thereon dated December 4, 2023.

Our report includes a reference to other auditors who audited the financial statements of Mendocino County Employees' Retirement Association (MCERA), a pension trust fund, as described in our report on the County's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County of Mendocino's internal control over financial reporting (internal control) as a basis for designing audit 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 County of Mendocino's internal control. Accordingly, we do not express an opinion on the effectiveness of County of Mendocino's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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.

We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001, 2022-002 and 2022-003 that we consider to be material weaknesses.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether County of Mendocino's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **County of Mendocino's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the County of Mendocino's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. County of Mendocino's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Roseville, California  
December 4, 2023

**COUNTY OF MENDOCINO**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2022**

**2022 – 001 – Financial Close and Audit Adjustments**

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Condition:** During the financial close and reporting process the County did not properly identify and record closing entries related to the following:

- The County did not record accounts payable/receivable and expenses/revenues for various accruals.
- The County over accrued liabilities for unemployment insurance.
- The County did not record the capitalization of fixed assets or depreciation in internal service funds.
- The County misclassified intergovernmental revenue as other revenue.
- The County included agreements in their implementation of Government Accounting Standards Board (GASB) Statement No. 87 – *Leases* that should have been excluded.
- The County did not provide adjustments to reclassify activity required to be reclassified in accordance with GASB Statement No. 84 – *Fiduciary Activity*.

**Criteria or specific requirement:** Internal controls over financing close and reporting require close review of year-end balances and activity to ensure they are in accordance with generally accepted accounting principles (GAAP).

**Effect:** The County had the following misstatements that were corrected during the current year:

Accounts payable/receivable adjustments:

- Prior period adjustment to beginning net position in Governmental Activities of \$665,023 was recorded to recognize revenues earned in a prior year.
- Audit adjustment of \$494,123 was recorded to accrue accounts payable and expenditures in the General Fund. This also resulted in an audit adjustment to accrue \$494,123 as due from other governments and intergovernmental revenue.
- Audit adjustment of \$172,528 to accrue accounts payable and expenditures in the Miscellaneous Grants Fund. This also resulted in an audit adjustment to accrue \$172,528 as due from other governments and intergovernmental revenue.
- Audit adjustment of \$122,781 to accrue accounts payable and expenditures in the General Liability Insurance Internal Service Fund.
- Adjustment to reverse negative revenues and receivables recorded in the current year of \$4,231,294 resulting from a duplicate journal entry recording the reversal of hazard mitigation grant funding in the Disaster Recovery Fund.

Unemployment insurance adjustment:

- Prior period adjustment to beginning net position in the Unemployment Insurance Fund and Governmental Activities of \$769,858 was recorded for the over accrual of unemployment insurance liabilities.

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**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2022**

Capitalization of fixed assets and depreciation adjustments:

- Audit adjustment of \$73,343 was recorded to capitalize software purchased in the Software Acquisition Fund.
- Audit adjustment of \$207,289 in the Software Acquisition Fund and \$65,683 in the Vehicle Replacement Fund to record current year depreciation in Internal Service Funds.

Misclassification adjustment:

- Audit adjustment of \$357,434 to reclassify intergovernmental revenues recorded as other revenues in the Mental Health Services Fund.

GASB 87 – Leases Adjustments:

- Adjustment to correct for overstatement of lease receivables and deferred inflows of resources in the amount of \$248,209 in the General Fund and Governmental Activities.
- Adjustment to correct for overstatement of right-to-use lease assets and lease liability in the amount of \$218,882 in Governmental Activities.

GASB 84 – Fiduciary Activity Adjustments:

- Adjustments to reclassify cash and activities as follows:
  - General fund cash and revenues understated by \$101,970.
  - Road fund cash and revenues overstated by \$8,762.
  - Special Districts Other fund cash overstated by \$487,348, revenues overstated by \$78,035 and transfers out understated by \$409,313.
  - Miscellaneous Grants fund revenues overstated by \$409,313 and transfers in understated by \$409,313.
  - Investment Trust fund cash and contributions to pooled investments understated by \$1,079,482.
  - Custodial fund cash and due to other governments overstated by \$685,342.

**Cause:** The County's financial close and reporting procedures did not include procedures to ensure account balances were being reported in accordance with GAAP.

**Repeat Finding:** Not a repeat finding.

**Recommendation:** The County should include additional procedures during the financial close and reporting process to perform the following:

- Review for revenues and expenses/expenditures at year end and in the subsequent period to ensure transactions are accurately recorded for financial reporting. Additional training should be provided to departments on how to properly identify revenues and expenses/expenditures that should be accrued in accordance with GAAP.
- Review significant estimates and calculations to ensure they are accurate and in accordance with GAAP.

**COUNTY OF MENDOCINO**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2022**

- Provide additional training related to the implementation of GASB accounting standards and prepare necessary adjustments for financial statement presentation during year end financial close.

**Views of responsible officials:** The County agrees with the auditor's recommendations. The County will include additional procedures during the financial close and reporting process to perform the following:

- Review for revenues and expenses/expenditures at year end and in the subsequent period to ensure transactions are accurately recorded for financial reporting. Additional training will be provided to departments on how to properly identify revenues and expenses/expenditures that should be accrued in accordance with GAAP.
- Review significant estimates and calculations to ensure they are accurate and in accordance with GAAP.
- Provide additional training related to the implementation of GASB accounting standards and prepare necessary adjustments for financial statement presentation during year-end financial close.

**COUNTY OF MENDOCINO**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2022**

**2022 – 002 – Cash Accounts and Reconciliations**

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Condition:** During our testing the County determined that there were 14 bank accounts that were not included in County cash and reconciled on a regular basis.

**Criteria or specific requirement:** All cash accounts belonging to the County or where the County has a fiduciary responsibility should be reconciled on a regular basis and included in the financial statements along with the activity associated with these accounts.

**Effect:** General fund cash and revenues were understated by \$104,028. Additionally, cash and activity for private purpose trust funds that was previously not recorded had to be added to the financial statements. Private purpose trust fund cash was understated by \$1,394,282, contributions to private purpose trust was understated by \$3,900,430 and distributions from private purpose trust was understated by \$2,506,148. Accounts that are either unknown or are not reconciled and included in County activity can expose the County to risk of misstatement and fraud.

**Cause:** These cash accounts were opened and held outside of the treasury pool. County management was not fully aware of these accounts and did not identify that this cash and the associated activity should have been included in County cash and fiduciary activities reported in the financial statements.

**Repeat Finding:** Not a repeat finding.

**Recommendation:** We recommend the County review and update policies regarding the opening of new accounts and provide training across all County departments on these policies. Additionally, County Treasury should maintain a complete listing of all County accounts and accounts where the County has fiduciary responsibility. These accounts should be reconciled on a regular basis and the activity related to these accounts should be included in the financial reporting of the County.

**Views of responsible officials:** The County agrees with the auditor's recommendations. The County will implement the recommendations as follows:

- Review and update policies regarding the opening of new accounts and provide training across all County departments on these policies.
- County Treasury will maintain a complete listing of all County accounts and accounts where the County has fiduciary responsibility.
- Accounts will be reconciled on a regular basis and the activity related to these will be included in the financial reporting of the County.

**COUNTY OF MENDOCINO**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2022**

**2022 – 003 – Preparation of the Schedule of Expenditures of Federal Awards**

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Condition:** During our testing, we noted the following matters related to the preparation of the schedule of expenditures of federal awards (SEFA).

- For Assistance Listing Number 14.231 COVID-19 Emergency Solutions Grants Program, the County did not include \$2,104,762 of expenditures on the SEFA. However, the County revised its SEFA to report these expenditures as a result of our audit inquiries.

**Criteria or specific requirement:** According to §200.510 Financial Statements of 2 CFR Part 200, the auditee must also prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements.

**Effect:** The SEFA did not accurately report federal expenditures.

**Cause:** Management oversight.

**Repeat Finding:** Not a repeat finding.

**Recommendation:** We recommend the County implement a process and establish adequate internal controls surrounding the preparation of the SEFA to ensure the completeness and accuracy of the supplementary information presented in the financial statements. We recommend a review of the SEFA by someone independent of the preparer for final verification of completeness and accuracy.

**Views of responsible officials:** The County agrees with the auditor's recommendations. The County will implement the recommendations as follows:

- Implement a process and establish adequate internal controls surrounding the preparation of the SEFA to ensure completeness and accuracy.
- Review of the SEFA will be done by someone independent of the preparer for final verification of completeness and accuracy.