

Response to Grand Jury Report

Report Title: **THE LIBRARY**

Report Date: May 27, 2015

Response by: Lloyd Weer, Auditor-Controller

Findings

I (we) agree with the findings numbered: **F13**

I (we) disagree wholly or partially with the findings numbered: **F1,2,3,4,5,6,8,9,10,11,12,14**

Attach a statement specifying the findings or portions of the findings that are disputed, and include an explanation of the reasons therefor.

Recommendations

Recommendations numbered **xxx** have been implemented.

Attach a statement describing the implement actions.

Recommendations numbered **xxx** have not yet been implemented, but will be implemented in the future.

Attach a statement with the schedule for implementation(s).

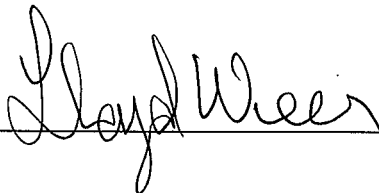
Recommendations numbered **R5** require further analysis.

Attach an explanation, and the scope and parameters of the analyses or studies, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.

Recommendations numbered **R1,2,4,6,7,8** will not be implemented because they are not warranted or are not reasonable.

Attach an explanation.

Signature: _____



Date: _____

7-23-15

Number of pages attached: 5

FINDINGS

F1. The County is not required by any law or regulation to charge the Library A-87 costs. The decision to charge A-87 costs is solely within the authority of the Board of Supervisors. The County Auditor develops and supplies to the County Executive Office the A-87 State Cost Plan. The CEO prepares and recommends the budget to the Board of Supervisors.

The Auditor-Controller disagrees with this finding. The Library is in a Special Revenue Fund but uses the General Fund to help pay for their day to day operations (I.E. payroll, accounts payable, cash receipts, personnel, purchasing, maintenance, etc.). All Special Revenue funds (including the Library) reimburse the General Fund by paying their appropriate share the A-87 Costs. The Auditor's Office prepares and submits the annual A-87 Cost Plan to the California State Controller's Office each December for formal approval. Each department prepares and submits their budget to the CEO for review. The CEO and Auditor make any necessary adjustments and recommend the department's budget to the BOS for approval.

F2. The application of the State Cost Plan to the County budget is the decision of the Board of Supervisors. The staff preparing the budget for the Supervisors' consideration, and the Board of Supervisors itself, has an obligation to fully understand the difference between direct billing and the purpose and applicability of A-87 costs when charged to the Library budget.

The Auditor-Controller disagrees with this finding. The Board of Supervisors must rely on the A-87 revenues to help fund the County's General Fund each year. Currently, the general fund is reimbursed approximately \$800,000 from all Special Revenue Funds for their A-87 costs. Staff fully understands the difference between direct billings and the A-87 Costs. Any direct billings paid by the department are first credited against the departments A-87 Costs before reimbursing the General Fund.

F3. The County charges the Library for A-87 use costs for buildings and building improvements even if the County did not spend a dime of the County General Fund. These are charges the Grand Jury finds are inappropriate and unacceptable.

The Auditor-Controller disagrees with this finding. The General Fund has spent a total of \$2,053,513 on the Library's buildings and improvements costs to date. Any donations or grant funding specifically intended for the construction or improvement of these buildings, are taken into account before calculating the Library's Building Use Cost.

F4. The donations from the public for the Fort Bragg Library building and the Federal grant for the Willits Library are used by the County as a basis for computing A-87 costs. The Grand Jury specifically finds these charges as inappropriate and unacceptable.

The Auditor-Controller disagrees with this finding. As stated above in finding F3, any donations or grant funding specifically intended for the construction or improvement of the Library buildings, are taken into account before calculating their A-87 Building Use Cost. The Auditor's office will re-confirm that these adjustments have been properly applied in the past. Any necessary adjustments will be credited towards future Library's Building Use charges.

F5. Inappropriate and unacceptable A-87 charges for equipment and buildings divert the Library's dedicated funds to the General Fund, reducing the amount the Library has to spend for services to the public.

The Auditor-Controller disagrees with this finding. The Library's A-87 Building and Equipment Use charges are an appropriate use of Library Funds. All Special Revenue Funds (including the Library) must reimburse the General Fund by paying their full share of the A-87 General Fund costs.

F6. The Grand Jury concludes from the County Auditor's answers to interview questions and the Grand Jury report from 2013-14, that as far as the acquisitions prior to 1996 are concerned, the County has been and is still collecting A-87 charges for equipment use that are not permitted per the A-87 Handbook.

The Auditor-Controller disagrees with this finding. When the County claims a use allowance for fixed assets, a standard percentage (6.67%) of the total cost of each fixed asset, may be claimed for each year that the asset is in use. The use allowance may not be claimed for a fixed asset after the total acquisition cost has been fully recovered. The Auditor's office is requesting the Library provide a current certified fixed asset listing. Once verified, any necessary adjustments will be credited towards future Library Equipment Use charges.

F8. The State Legislature has passed laws providing that the County Free Libraries are special districts. The State Librarian has consistently maintained that the County Free Libraries are special districts. The Grand Jury finds that the Mendocino County Free Library is a dependent special district.

The Auditor-Controller disagrees with this finding. In October 1963, the Board of Supervisors adopted Ordinance 454, which established the Mendocino County Free Library system. The County Free Library is under the general supervision of the Board of Supervisors and does not operate as a Special District.

F9. By law, the Mendocino County Free Library, a special district, is entitled to a pro-rata share of the property taxes.

The Auditor-Controller disagrees with this finding. The Library is a County Free Library... not a Special District. Each year, the Library receives a pro-rata share of property tax revenue and is treated the same as a Special District for revenue and tax purposes only.

F10. Absent adequate explanation of the position taken by some County Officials that the Library is not a special district, the Grand Jury does not see a valid reason for the current Board of Supervisors supporting this position.

The Auditor-Controller disagrees with this finding. The Library has never gone through the process to form a Special District. LAFCo has no records that indicate the Library is a Special District in Mendocino County. The State Controller's office has no record that the Library is filing a required "Special District Annual Report".

F11. The County Officials' interpretation of the Education Code §19147, accomplished by changing the statutory language, has resulted in paying the County Librarian from the Library's dedicated funds rather than the General Fund. Further, County Officials also ignore the companion section, §19148.

The Auditor-Controller disagrees with this finding. The County is following the Education Code by paying the Librarian out of the Library's Special Revenue Fund. The Grand Jury is adding the words "General Fund" when they do not appear anywhere in the code.

F12. Paying the County Librarian from the Library funds improperly limits the money available for the Library and is contrary to statutory interpretation principles.

The Auditor-Controller disagrees with this finding. The Library is a Special Revenue Fund. All Library revenue sources are required to be deposited directly into the Library fund. Paying the Librarian out of the Library's fund is appropriate and very common across many California Counties.

F13. Measure A sales taxes are being appropriately used to update the library collections, services, providing new programs, and hiring needed staff.

The Auditor-Controller agrees with this finding. Since the passage of Measure A, the Library's Fund Balance has grown to over \$1.5 million dollars.

F14. Some responses to Findings and Recommendations of the Grand Jury 2013-14 report do not conform to the standards in the Penal Code §933.05. By conforming to the standards of the Penal Code, public officials would actually inform the public as to the issues at hand.

The Auditor-Controller disagrees with this finding. The Auditor-Controller goes to great lengths to prepare responses that conform to the standards in Penal Code 933.05.

RECOMMENDATIONS

R1. All respondents conform to Penal Code §933.05. (F14)

This recommendation will not be implemented because it is not warranted or is not reasonable. The Auditor-Controller has always provided responses that conform to the standards in Penal Code 933.05.

R2. The Board of Supervisors and all staff responsible for budget planning and implementation be trained in the difference between direct billing and A-87 costs, including the difference between overhead and use costs, for the Library. (F2)

This recommendation will not be implemented because it is not warranted or is not reasonable. Budget staff is already trained and fully aware of the differences between direct billing and A-87 Costs.

R4. A-87 costs for building use are based only on those amounts that are documented as actually paid from the County General Fund. (F1, F3, F4, F5, F7)

This recommendation will not be implemented because it is not warranted or is not reasonable. All a-87 costs for the Library's building use charges are based on amounts paid out of the General Fund.

R5. The Board of Supervisors, the County Auditor, and the CEO recognize that insurance proceeds, grants, and donations are not General Fund monies for the purposes of A-87 costs charged to the Library. (F1, F2, F3, F4, F5, F7)

This recommendation requires further analysis. All insurance proceeds, donations or grant funding specifically intended for the construction or improvement of a building, are taken into account before calculating A-87 Building Use Costs. The Auditor's office will re-confirm that specific Library adjustments have been properly applied in the past. Any necessary adjustments will be credited towards future Library's Building Use charges.

R6. The Board of Supervisors with the County Auditor establishes a specific tax rate for the Library as a dependent Special District. (F8, F9, F10)

This recommendation will not be implemented because it is not warranted or is not reasonable. The Library is a County Free Library, not a Special District, and therefore cannot have a specific tax rate. Instead, each year the Library receives their pro-rata share of property tax revenue, in the form of an "Operating Transfer In" from the General Fund.

R7. The Board of Supervisors with the County Auditor revise the procedures to require the budget to show the Library revenues as a pro-rata share of the property tax. (F8, F9, F10)

This recommendation will not be implemented because it is not warranted or is not reasonable. The County's accounting procedures are performed in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Since the Library receives their pro-rata share of property tax revenue through an operating transfer from the General Fund, the budget book must show it in line item "827802 Operating Transfer In". It is clearly identified in the Library's budget narrative and is the only amount that appears in this line item.

R8. The Board of Supervisors pay the Librarian's salary from the General Fund. (F11, F12)

This recommendation will not be implemented because it is not warranted or is not reasonable. The Library Fund is a Special Revenue Fund. All Library revenue sources are required to be deposited directly into the Library fund. The Librarian's salary should be paid out of the Library's own revenue sources, not the General Fund.