

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



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Auditor-Controller/
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November 12, 2013

John McMahon, Sheriff-Coroner
Sheriff's Department
655 East Third Street
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SUBJECT: REVIEW OF SHERIFF'S DEPARTMENT'S SPECIAL REVENUE FUNDS

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 02-02 on Operational Internal Auditing, we reviewed the San Bernardino County Sheriff's Department's (SBSO) special revenue funds. Our review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

The County Administrative Office requested the Internal Audits Section of the Auditor-Controller/Treasurer/Tax Collector's Office (ATC IAS) to conduct a review of the SBSO's special revenue funds to ensure that they meet the definition of a special revenue fund under generally accepted accounting principles used within the United States (US GAAP).

Criteria

The relevant US GAAP includes GASB Codification Section 1300.105 (Section 1300, Paragraph 105) issued by the Governmental Accounting Standards Board (GASB). Key accounting and reporting characteristics of special revenue funds include:

- Special revenue funds are used to account for and report the proceeds of one or more specific restricted or committed revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- These inflows must be recognized as revenue in the special revenue fund in which they will be expended.
- Restricted or committed proceeds of the specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

The funds are considered committed when the amounts may only be used for a specific purpose pursuant to constraints imposed by formal action (resolution) of the government's highest level of decision-making authority (the Board of Supervisors). These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed previously to commit those amounts.

GASB Codification Section 1300, paragraphs 117 and 118 states that the "use of special revenue funds is not required unless they are legally mandated. [...] The general rule is to establish the minimum number of separate funds consistent with legal specifications, operational requirements, and the principles of fund classification [...] Using too many funds causes inflexibility and undue complexity in budgeting, accounting, and other phases of financial management, and is best avoided in the interest of efficient and economical financial administration."

Objective, Scope and Methodology

Our overall objective was to evaluate if the special revenue funds used by the Sheriff's Department (SBSO) conform to US GAAP during the audit period of July 1, 2011 through June 30, 2012. During the audit period, the SBSO had fifteen special revenue funds. Special revenue fund SDA-Cal ID was not reviewed as part of this audit.

The General Accounting Section of ATC requires that each county department complete an annual survey regarding the department's revenue. The purpose of this survey is to obtain information on the revenue source constraints within each fund for the County's Comprehensive Annual Financial Report (CAFR). We obtained the SBSO's survey for fiscal year 11/12 from the General Accounting Section. We reviewed legislation, agreements, contracts, and additional sources referenced by the SBSO within the survey and created a fact sheet for each of the SBSO's special revenue funds. We then created a questionnaire to allow the SBSO to give us additional information and supporting documentation regarding the appropriateness of each special revenue fund.

Conclusion

Based on our review of fund characteristics, we concluded that five funds should continue to be reported as special revenue funds and four additional funds could continue to be reported as special revenue funds if the accounting is handled appropriately. Five of the special revenue funds should be accounted for in the general fund. Please see the Observation and Recommendation section of the report for further details.

We sent a draft report to the SBSO and discussed our review with management on September 3, 2013. The SBSO's response to our recommendation is included in this report.

Observation and Recommendation

We have identified and listed our observation along with our recommendation for improvement below.

Observation: The SBSO has special revenue funds that do not currently meet the qualifications of a special revenue fund as noted within the Criteria Section of this report

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes. US GAAP also requires inflows to be recognized as revenue in the special revenue fund in which they will be expended.

The following nine funds meet the definition of a special revenue fund and have underlying code or guidelines citing a separate fund. These funds may continue to be classified as special revenue funds.

Fund	Fund Name
SCK	Federal Seized Assets—Department of Justice (DOJ)
SCO	Federal Seized Assets (Treasury)
SCX	Inland Regional Narcotics Enforcement Team (IRNET) State
SQR	Court Services Auto
SQT	Court Services Tech
SCF	Inland Regional Narcotics Enforcement Team (IRNET) Federal
SCL	Auto Theft Task Force
SCT	State Seized Assets
SRL	Local Detention Facility Revenues

SCF, SCL, SCT and SRL may continue to be classified as special revenue funds if all of their expenditures are either recorded directly within each fund or transferred into each fund on a regularly scheduled basis using the following FAS Object Codes:

Object Code	Name
5410	Salaries & Ben Trsf Out-GASB54
5412	Servs & Supply Trsf Out-GASB54
5414	Other Charges Trsf Out-GASB54

Use of the above GASB 54 object codes is permitted only when the SBSO cannot directly record the expenditures within the special revenue fund.

The following five funds fail to meet the criteria of being either restricted or committed for specific purposes.

Fund	Fund Name
SCB	Contract Training
SCC	Public Gathering
SCE	Aviation
SCW	Search and Rescue
SQA	Sheriff Capital Projects Fund

All of these funds were established prior to the July 1, 2010 effective date of Governmental Accounting Standards Board statement 54, which superseded paragraph 26, National Council on Governmental Accounting Statement 1 (NCGAS 1). GASB 54 provided enhanced guidance for special revenue fund accounting and reporting. Recording expenditures in the general fund while reporting the corresponding revenue in a special revenue fund can cause matching issues between revenues and expenditures and understate the fund balance of the general fund. This will also require more discretionary general funding for the SBSO, while not using special revenue resources.

Recommendation:

We recommend that the SBSO transfer any remaining balances within the funds listed below to the general fund and then deactivate the special revenue funds.

Fund	Fund Name
SCB	Contract Training
SCC	Public Gathering
SCE	Aviation
SCW	Search and Rescue
SQA	Sheriff Capital Projects Fund

Management's Response:

The Sheriff's Department agrees with ATC's findings regarding the above 5 special revenue funds identified as not meeting the definition of a special revenue fund and failed to meet the criteria of being either restricted or committed for specific purposes. Funds SCB, SCC, SCE and SCW have already been established as individual budget orgs in the Sheriff's general fund AAA-SHR. The fund balances will be transferred during fiscal year 13/14. Fund SQA did not have budget established for FY 13/14 and remaining fund balance will be transferred to AAA-SHR.

Auditor's Response:

The Department's planned actions will correct the deficiency noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By: _____

Denise Mejico
Chief Deputy Auditor
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