

**LOCAL AGENCY FORMATION COMMISSION
COUNTY OF SAN BERNARDINO**

215 North D Street, Suite 204
San Bernardino, CA 92415-0490 • (909) 383-9900 • Fax (909) 383-9901
E-MAIL: lafco@lafco.sbcounty.gov
www.sbclafco.org

DATE: JULY 9, 2008

FROM: KATHLEEN ROLLINGS-McDONALD, Executive Officer
MICHAEL TUERPE, LAFCO Analyst

TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #7: Year-End Budget Report for Fiscal Year 2007-08

RECOMMENDATION:

Staff recommends that the Commission:

1. Note and file the receipt of this report which outlines that total expenditures are within total appropriation authority and that revenue receipts have exceeded budget projections.
2. Expand the scope of the Administrative Committee to include responsibilities for taking part in the Annual Audit process as required by Government Accounting Standards SAS No. 114

BACKGROUND:

This report will present the year-end budget review for Fiscal Year 2007-08 and discuss new auditing requirements which will affect the conduct of the audit for Fiscal Year 2007-08.

2007-08 YEAR-END BUDGET REVIEW:

Staff is presenting the Commission with a spreadsheet that outlines the preliminary Year-End status of expenditures and receipts for Fiscal Year 2007-08 (Attachment #1). Final financial reconciliation of the expenses and receipts by the County Auditor/Controller-Recorder's office should be completed by the first of August. The spreadsheet indicates that Total Expenditures did not exceed authority and that Total Revenues were slightly above projections. The following provides a more detailed discussion of expenditures and revenues for the year:

Expenditures:

The unaudited total of expenditures at year-end is \$1,132,954 or 97% of the budgeted amount. This amount does not include the \$52,198 dedicated as Reserves that will be carried forward to Fiscal Year 2008-09. The expenditures are made up of two categories of accounts outlined as follows:

1. Salaries and Benefits (1000 Series of Accounts):

Expenditures within the 1000 series of accounts for the year total \$729,093 (96% of budget authority). This amount includes the financial obligation related to the retirement of the Clerk to the Commission, \$13,220 in termination benefits (Account 1045).

The Salaries and Benefits series also includes expenditures for unbudgeted increases for auto allowance, portable community device allowance, and retirement medical trust fund contributions. The Commission at the July 2007 hearing approved these increases to mirror changes in the County's Exempt Compensation Plan which were approved following budget adoption.

2. Services and Supplies (2000 Series of Accounts):

Expenditures within the 2000 series of accounts total \$403,861 (97% of budget authority). During the past fiscal year the Commission considered the County Fire Reorganization, the largest and most complex proposal in San Bernardino LAFCO history. The processing of this application affected expenditure items sensitive to activity levels for this Fiscal Year in the amount of \$48,337, which included, but were not limited to, the following items:

- Legal Notices (Account 2085) -- \$24,411 for legal advertisement
- Postage (Account 2310) – approximately \$9,000 for mailing the initial study, staff reports, and resolutions.
- Environmental Consultant (Account 2424) -- \$5,228 for services including the preparation of the initial study
- Reproduction costs associated with the office copier (Account 2895) and Printing Services (Account 2323) -- \$8,698 for printing of the initial study, staff reports, and resolutions.

In addition, the Commission approved the contract with Debby Chamberlin, former LAFCO Clerk, totaling \$5,000 to assist in training for the new LAFCO Clerk and to archive files. This expense is shown in Account 2445 – Other Professional Services.

3. Reserves (6000 Series of Accounts):

The full budget amount for reserves, \$52,198, will be carried forward into Fiscal Year 2008-09.

Revenues:

The unaudited total of Revenues at year-end is \$1,271,431, which exceeded budget projections (\$1,247,653) by \$23,778 or 2%. The following outlines the major accounts:

1. Current Service Revenues, which encompasses all fee and deposit accounts, totals \$436,343, which fell short of budget projections (\$453,645) by \$17,302, or 4%.
2. The Commission received three proposals during the month of June that pushed LAFCO Filing Fees (Account 9800) over budget projections by \$12,062, or 10%. Without these proposals, this account would have been under budget projections by 1%.
3. Interest (Account 8500) exceeded budget projections by \$16,986, or 340%. The sharp increase is due to interest earned from revenues on file for the processing of the Environmental Impact Report for LAFCO 3076 – Consolidation of San Bernardino Valley Municipal Water District and San Bernardino Valley Water Conservation District.

Proposal Activity:

Attachment #2 to this report identifies the number of proposals and service contracts received and the number of service reviews completed during the Fiscal Year. Twelve proposals were received (two more than anticipated) and 16 service contracts were received (seven less than anticipated). Proposals and service contracts received were at the lowest levels experienced in recent history; only FY 2001-02 had a similar activity level. Ten service reviews were completed during the year. They are: Yucca Valley Fire Protection District, Central Valley Fire Protection District, Forest Falls Fire Protection District, Lake Arrowhead Fire Protection District, Mojave Desert Resource Conservation District, and County Service Areas 9, 29, 38, 42, and 56.

EXPANSION OF SCOPE OF ADMINISTRATIVE COMMITTEE:

During the presentation of the FY 2006-07 audit, the Commission's auditor, Moreland and Associates, notified the Commission of a new auditing standard titled Statement of Auditing Standards (SAS) 114 "The Auditor's Communication with those Charged with Governance". SAS 114 deals with the way an audit is conducted, not with accounting issues. A copy of the Executive Summary of SAS 114, prepared by the American Institute of Certified Public Accountants, is included as Attachment #3 to this report.

Effective with the FY 2007-08 audit, SAS 114 establishes a requirement for the auditor to communicate with those charged with governance (for LAFCO that would be directly with the Commission) on certain significant matters related to the audit. It also defines the responsibility of those charged with governance regarding future audits, noting that the purpose is to provide the governing body with a better understanding of what auditors do during an audit. Matters which are to be communicated include: 1) how the auditor proposes to address significant risks due to fraud or error; 2) the auditor's approach related to internal controls of the agency; and 3) the concept of materiality.

Instead of having the entire Commission take part over the multi-month audit process, staff is recommending that the scope of the standing Administrative Committee be expanded to include this responsibility. The Administrative Committee is comprised of the Chair, Vice-Chair and most recent past Chair. The Committee members would have the opportunity to ask questions of the auditor before publication of the audit report and be able to provide answers to the Commission during its consideration of the audit. It is anticipated that the Administrative Committee would participate, by conference call or in person, in three meetings: 1) at the planning phase of the audit; 2) to review the draft audit; and 3) to review the final audit. The Committee members would also be available during the course of the audit to promote effective two-way communication between the Commission and the auditors.

CONCLUSION:

During the past Fiscal Year the Commission's expenditures have been within the total appropriation authority granted during budget considerations; total revenues have been slightly above projections; and at year-end the Commission's fund balance into Fiscal Year 2008-09 is \$138,477, which includes \$52,198 in reserves. No action is required of the Commission other than to note and file this report.

The staff's recommendation for the expansion of the Administrative Committee structure to address new audit needs will provide for a greater understanding of the audit process by Commission members and will allow the Commission to meet the requirements of SAS 114.

KRM/mt

Attachments:

1. Spreadsheet Year-End Expenditures and Receipts for Fiscal Year 2007-08
2. Chart Illustrating Proposal Activity for Fiscal Year 2007-08
3. Executive Summary of Statement of Auditing Standards No. 114, issued by the American Institute of Certified Public Accountants