

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION
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February 4, 2004

TO: Sacramento Local Agency Formation Commission

FROM: Peter Brundage, Executive Officer

RE: Financial Audit for FY Ending June 30, 2002

RECOMMENDATION

1. Receive and file Audit Report for Fiscal Year ending June 30, 3003.
2. Adopt the County Fixed Asset Policy as applicable to LAFCo:
Purchase of equipment, machines, automobiles, furniture, etc., that exceed \$5,000 in cost will be capitalized. [See Attachment].

DISCUSSION

On July 1, 2001, Sacramento LAFCo became an independent entity. The Commission approved a budget whereby staff would be dedicated 100 percent to LAFCo duties and assignments. In addition, staff would only report to the Commission. During this transition, LAFCo relocated its offices to 1112 I Street.

In prior years, LAFCo was entirely funded by the County of Sacramento. Audits were conducted on a countywide basis. Because of LAFCo's independence and now that it is funded by cities, special districts and the county, it is prudent to conduct audits of LAFCo financial position.

Prior to this transition, while LAFCo had maintained a separate accounting fund, it had never been separately audited. Therefore, the attached Audit for the year ending June 30, 2002, is the first separate audit of LAFCo that has been conducted. This audit coincided with LAFCo's first year as an independent entity.

Auditor's Findings and Recommendations

This audit was performed by the County of Sacramento Auditor-Controller, Division of the Department of Finance. The audit was conducted in accordance with generally accepted auditing standards and government auditing standards, as required.

The audit reviewed revenue, expenses, assets, liabilities and fund balance for the period July 1, 2001 to June 30, 2002. The auditor indicated that the financial statements in the attached report present fairly, in all material respects, the financial position of LAFCo as of June 30, 2003.

Auditor Recommendations - Management and Accounting Improvements

This audit indicated that there are several reportable conditions. Reportable conditions involve matters relating to deficiencies in the design of operation of the internal control over financial reporting that could adversely affect the reporting of financial data and reports. The purpose of the audit findings is to describe the problem and take the appropriate corrective action to cure or improve the deficiency. The auditor has made the following findings and recommendations:

1. Budget Reporting

Finding:

LAFCo did not utilize Sacramento County COMPASS System to record the approved budget.

Recommendation:

Input final adopted budget into COMPASS system.

2. Expenditures Documentation

Finding:

Journal vouchers between LAFCo and other departments were not readily available for audit.

Recommendation:

LAFCo needs to obtain journal vouchers for county departments that have received reimbursement for services provided to LAFCo. E.g., payment of monthly lease for office, reimbursement of salary and benefits for staff.

3. Erroneous Charges to LAFCo Expenditure Accounts

Findings:

Several expenditures were incorrectly charged to LAFCo expenditure accounts.

Recommendation:

Monitor monthly expense reports to determine if all expenditures relate to LAFCo business. LAFCo staff discovered these errors during monthly review of Compass reports. Errors were fixed prior to year end.

4. **Fixed Asset Policy**

Finding:

LAFCo has not developed a fixed asset reporting policy.

Recommendation:

LAFCo should adopt a fixed asset policy.

Comment: The purpose of this policy is to capitalize or expense assets over their estimated life. Based on the existing County fixed asset policy, LAFCo does not have any assets to capitalize. The County defines an asset only if it exceeds \$5,000 in value. For example, under the County policy, if LAFCo purchases a computer or equipment less than \$5,000, that item would be expensed in the year purchased.

I do not anticipate that LAFCo will have many fixed assets. However, a policy should be in place. Therefore, I recommend that your Commission adopt the County policy with regard to fixed assets.

5. **Accounts Receivable Ledger**

Finding:

Record keeping for assessments and services billed needs to be improved.

Recommendation:

Improve recording system to track receipt of income from assessments and services billed.

6. **Maintain Separate Revenue Accounts**

Finding:

Revenue and income for assessments, services billed and interest income were not coded to separate accounts.

Recommendation:

Establish three separate revenue accounts to more easily track the various revenue sources.

7. **Reserve Fund Balance**

Finding:

A small reserve account had been established in the budget with Commission action. However, no action was taken to set up a separate reserve account.

Recommendation:

Eliminate reserve.

Action: Reserve budget account was eliminated. LAFCo designated a portion of the fund balance to be used to offset assessment increases for special districts in lieu of a separate reserve account.

8. **Accounts Payable**

Finding:

Vendor invoices for services provided during FY 2001-02 but not billed until the next year were not accrued as expenditures for FY ending June 30, 2002.

Recommendation:

LAFCo should accrue expenditure for services provided prior to year-end but not yet billed.

9. **Monthly Expenditures Report**

Finding:

All monthly expenditures in Commission report are not reported.

Recommendation:

List all monthly or quarterly expenditures in Commission packet or separate budget report.

10. **Contract for Legal Services Exceeded**

Finding:

Payments for Legal Counsel exceeded approved contract amount authorized by Commission. Contract amendment was not approved by Commission. Payments were supported by approved invoices.

Recommendation:

Track contract terms to ensure payments are not made that exceed authorized contract amounts.

11. Operations Manual

Finding:

LAFCo does not have a current operations manual.

Recommendation:

Develop a written operations policy manual.

12. Liability for Accrued Employee Leave

Finding:

LAFCo uses contract employees. No agreements exist that detail what agency is responsible for accrued employee leave (vacation and sick leave) prior to being dedicated 100 percent to LAFCo duties.

Recommendation:

Develop a formal written agreement between the County, City of Sacramento and LAFCo regarding financial responsibility for prorating accrued leave balances.

PB:Maf
Attachment

(Audit Report)