



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE  
AUDITOR-CONTROLLER

January 16, 2014

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **SHERIFF'S DEPARTMENT - SPECIAL FUNDS, TRUST FUNDS, AND  
ACCRUALS REVIEW**

As part of the Auditor-Controller's ongoing responsibility to ensure the County's resources are safeguarded and that departments comply with County fiscal policy and procedures, we continue to review County departments' use of special funds, trust funds, and accruals. These reviews ensure departments are controlling and using special funds, trust funds, and recording accruals in compliance with the County Fiscal Manual (CFM) and other requirements.

We have completed a review of the Sheriff's Department's (Sheriff's or Department) special revenue fund and trust fund accounting controls. We also reviewed the Sheriff's commitments, accounts payable, and revenue accruals. Our review included interviews with Sheriff's management and staff, and reviews of the Department's records. The Sheriff's has eight special revenue funds, nine trust funds, and 15 sub-accounts within the County's Departmental Trust Funds (TK7 and TK9) with a total combined balance of approximately \$226.4 million as of June 30, 2013.

**Summary of Findings**

The Department needs to strengthen its controls over their special revenue funds, trust funds, and commitments. The following are examples of areas for improvement:

- **\$160 Million of Excess Special Revenue Funds** - Sheriff's management needs to establish detailed plans for future expenditures relating to special revenue

funds. The Sheriff's used only \$210.1 million (57%) of the \$370.3 million of available special fund revenues over the three Fiscal Years (FY) reviewed (FY 2010-11 through FY 2012-13). In accordance with the *State of California Accounting Standards and Procedures for Counties*, special revenues should not exceed expenditure requirements, and excessive revenue indicates that counties should reduce fees or establish reserve accounts.

*The Sheriff's attached response indicates that the Department's Special Accounts Unit (Special Accounts) is conducting an analysis of its special revenue taxes/services charges, and will determine the appropriate expenditure requirements and spending plans.*

- **Poor Controls Over Cash** - Sheriff's management needs to improve their controls over cash held in trust accounts. We noted the Department held \$6.6 million in the incorrect trust fund for eight months, and no longer needed 13 trust funds/sub-accounts totaling \$109,000. Delays in reconciling and closing obsolete trust funds/sub-accounts could result in the Department's inability to issue timely payments and detecting misappropriated funds.

*The Sheriff's attached response indicates that Special Accounts will create a timeline to ensure timely distribution of trust monies, close the trust funds/sub-accounts that are no longer needed, and appropriately disposition any remaining balances.*

- **Trust Accounts Not Being Reconciled** - Sheriff's management needs to ensure the Department's trust funds/sub-accounts are properly reconciled, in accordance with the CFM. The Department did not reconcile 19 (86%) of the 22 trust funds/sub-accounts reviewed. In addition, three (14%) of the 22 trust funds/sub-accounts reviewed did not have detailed subsidiary ledgers, which are necessary to enable staff to research discrepancies in trust funds/sub-accounts.

*The Sheriff's attached response indicates that Special Accounts will create detailed subsidiary ledgers for all trust funds/sub-accounts and ensure that monthly reconciliations are performed.*

- **Inappropriate Use of Unclaimed Funds** - We noted that the Sheriff's inappropriately transferred approximately \$1.6 million in unclaimed funds into their operating revenue over a two-year period. The funds should have been transferred to the Treasurer and Tax Collector (TTC) as required by the CFM.

*The Sheriff's attached response indicates that the Department will work with the Chief Executive Office to determine the appropriate protocol for the transfer of unclaimed funds.*

- **Delays in Transferring Unclaimed Funds to TTC** - Sheriff's management should research their trust and special revenue funds and transfer unclaimed funds to the TTC according to statutory timeframe requirements. We noted that the Department had at least \$1.5 million that had been unclaimed for up to three years and should have already been transferred to the TTC.

*The Sheriff's attached response indicates that Special Accounts is in the process of reviewing its unclaimed funds prior to determining final disposition and referral to TTC, and is implementing changes to departmental records to separately account for unclaimed funds that may have different referral timeframes.*

- **Commitments Not Cancelled** - Accounts Payable staff should cancel commitments that are no longer needed in accordance with the Auditor-Controller Accounting Division's year-end closing instructions. We noted the Department did not cancel commitments totaling approximately \$778,000.

*The Sheriff's attached response indicates that the Department's Accounts Payable Unit will conduct training and provide procedures for cancelling commitments and will monitor for compliance.*

Details of these and other findings and recommendations are included in Attachment I.

### **Review of Report**

We discussed the results of our review with Sheriff's management. The Department's attached response (Attachment II) indicates general agreement with our findings and that they are in the process of implementing all 11 of our recommendations.

We thank Sheriff's management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:AB:RS:MP

#### **Attachments**

c: William T Fujioka, Chief Executive Officer  
Leroy D. Baca, Sheriff  
Mark J. Saladino, Treasurer and Tax Collector  
Public Information Office  
Audit Committee

**SHERIFF'S DEPARTMENT  
SPECIAL FUNDS, TRUST FUNDS, AND ACCRUALS REVIEW**

**Background and Scope**

The Sheriff's Department's (Sheriff's or Department) Financial Programs Bureau within the Administrative Services Division has overall responsibility for the Department's revenue functions, and Fiscal Administration has overall responsibility for the expenditure accruals, commitments, and special revenue funds. Responsibility for trust funds is divided between the two organizational units.

We reviewed the Department's special revenue and trust fund balances and evaluated the Department's procedures for accruing revenue and commitments. Our review included interviews of Sheriff's staff and management, and a sample of the Department's trust fund transactions, revenues, expenditures, commitments, and accounts payable.

**Special Revenue and Trust Funds**

The Sheriff's has eight special revenue funds, and a total of 24 trust funds/sub-accounts. The trust funds include nine individual trust funds and 15 sub-accounts within the County's Departmental Trust Funds (TK7 and TK9). The special revenue and trust funds are used to account for proceeds from legally restricted revenues (i.e., vehicle registration fees, asset forfeitures, etc.), liability insurance, inmates' personal deposits, grants, unearned revenue, and miscellaneous holdings for third parties. As of June 30, 2013, the Sheriff's had a total combined balance of \$226.4 million in its special revenue and trust funds.

**Special Revenue Funds**

Special revenue funds are used to account for revenue that is legally restricted for specific purposes. The *State of California Accounting Standards and Procedures for Counties* states that special revenues should not exceed expenditure requirements, and excessive revenue indicates that counties should either reduce fees or establish reserve accounts and spending plans for the excess funds.

We noted that the Sheriff's collections for their special revenue funds continue to exceed their expenditures, resulting in the Department accumulating over \$160.2 million in these funds. Specifically, the Sheriff's used only \$210.1 million (57%) of the \$370.3 million of available special fund revenues over the three Fiscal Years (FY) reviewed (FY 2010-11 through FY 2012-13). We also noted the Sheriff's does not have formal spending plans for these excess funds, and inappropriately proposes balanced special revenue fund budgets each year instead of evaluating special revenue taxes/service charges to ensure they reflect expenditure requirements. In addition, the Sheriff's has not developed spending plans and established reserve accounts for the \$160.2 million in excess special revenue funds as required by the State.

The Sheriff's should evaluate their special revenue taxes/service charges to ensure they reflect expenditure requirements, and/or develop spending plans and establish reserve accounts for the excess special funds.

### **Recommendation**

- 1. Sheriff's management evaluate special revenue taxes/service charges to ensure they reflect expenditure requirements, and/or develop spending plans and establish reserve accounts for the excess special funds.**

### **Trust Funds**

County Fiscal Manual (CFM) Section 2.3.0 requires departments to reconcile their trust accounts to the County's official accounting records monthly. The reconciliations must be approved by the chief fiscal officer or accounting officer, and subsidiary ledgers of the activity in each fund must be maintained. In addition, CFM Section 2.1.3 requires departments to maintain historical data documenting each trust fund's purpose and authority to ensure departments use trust funds as intended.

We reviewed 22 trust funds/sub-accounts, totaling \$53.9 million, and noted 19 (86%) instances where the Sheriff's did not reconcile the trust funds/sub-accounts, totaling \$37.9 million to the electronic Countywide Accounting and Procurement System (eCAPS). Additionally, three (14%) of the 22 trust funds/sub-accounts did not have detailed subsidiary ledgers. The practice of not completing monthly reconciliations and not maintaining detailed subsidiary ledgers could result in undetected overages, shortages, or unresolved errors. We noted that the Department subsequently reconciled the trust funds/sub-accounts and had unreconciled differences totaling approximately \$430,000.

In addition, the Sheriff's did not have documentation indicating the purpose and authority for 18 (82%) of the 22 trust funds/sub-accounts reviewed. As a result, the Department could not ensure that trust funds/sub-accounts were still needed and used appropriately.

The Sheriff's should reconcile trust funds/sub-accounts monthly, ensure that reconciliations are reviewed and approved, unreconciled differences are investigated and resolved, and maintain detailed subsidiary ledgers for all trust funds/sub-accounts. In addition, the Department should develop and maintain documentation indicating the purpose and authority of each trust fund, and ensure that trust funds are used as intended.

**Recommendations****Sheriff's management:**

- 2. Reconcile trust funds and sub-accounts monthly as required, ensure that reconciliations are reviewed and approved, and that unreconciled differences are promptly investigated and resolved.**
- 3. Maintain detailed subsidiary ledgers for all trust funds and sub-accounts.**
- 4. Develop and maintain documentation indicating the purpose and authority of each trust fund, and ensure that trust funds are used as intended.**

**Monitoring Funds**

Departments should make timely disbursements of funds to ensure that their accounting records accurately represent the department's financial position. CFM Section 2.1.3 requires departments to close trust funds when they are no longer needed.

The Sheriff's does not monitor their trust and special funds to ensure they disburse funds timely and close funds they no longer need. For example:

- The Department's transfer of \$6.6 million in liability insurance from their Miscellaneous Trust Account to the Department's Private Entity Law Enforcement Revenue trust account was delayed by eight months. In addition, the Department's transfer of \$406,000 from the Mira Loma Detention Facility trust fund to the Inmate Welfare special revenue fund was delayed by five months.
- The Department has not determined if \$1.5 million of temporary disability payments, including \$21,000 held in trust for 11 years, belongs in trust.
- Thirteen special funds and trust funds/sub-accounts totaling \$109,000 are no longer needed. Sheriff's management agreed the trust funds/sub-accounts should be closed.

The Sheriff's should closely monitor trust funds to ensure timely disbursement of trust monies, and close special funds and trust funds/sub-accounts that are no longer needed and appropriately dispose of any remaining balances.

**Recommendations****Sheriff's management:**

- 5. Closely monitor trust funds to ensure timely disbursement of trust monies.**
- 6. Research all temporary disability payments held in trust and release funds as appropriate.**
- 7. Ensure they close special funds and trust funds/sub-accounts that are no longer needed and appropriately dispose of any remaining balances.**

**Unclaimed Funds**

CFM Section 2.6.0 and Government Code Sections 26642 and 50050 require departments to refer and transfer unclaimed funds to the Treasurer and Tax Collector (TTC) within statutory timeframe requirements (i.e., three months for funds found in the course of business, one year for funds abandoned by released inmates, three years for funds previously used as evidence, etc.). The TTC publishes notice of the unclaimed money in a newspaper and transfers unclaimed amounts into the County general fund.

We noted that the Sheriff's inappropriately transferred approximately \$1.6 million in unclaimed funds to their operating revenue over a two-year period. As a result, the Sheriff's recognized revenues that should have been transferred to the County general fund. In addition, at the time of our review, we noted that the Department had \$4 million in unclaimed funds of which at least \$1.5 million should have been referred to the TTC. The Department's records do not separately account for unclaimed funds with different referral timeframes, making it difficult to determine when the remaining \$2.5 million should be referred.

Transferring unclaimed funds to a department's revenue may result in the use of funds that were not authorized by the Board of Supervisors as part of a publicly accessible appropriations process. Sheriff's management indicated they were not aware of the unclaimed funds requirements, and adopted a practice of periodically transferring unclaimed funds for over three years to the Department's operating revenue. The Sheriff's should discontinue transferring unclaimed funds to the Department's operating revenue and refer these funds to the TTC according to statutory timeframe requirements. Management should also research all current unclaimed funds to determine when amounts should be referred to the TTC, and modify departmental records to separately account for unclaimed funds with different referral timeframes.

**Recommendations****Sheriff's management:**

8. **Discontinue transferring unclaimed funds to the Department's operating revenue and refer these funds to the Treasurer and Tax Collector according to statutory timeframe requirements.**
9. **Research all current unclaimed funds to determine when amounts should be referred to the Treasurer and Tax Collector.**
10. **Modify departmental records to separately account for unclaimed funds with different referral timeframes.**

**Commitments**

At the end of each fiscal year, County departments establish commitments to pay for services and supplies that have been ordered or contracted for, but have not been received as of fiscal year-end. Because commitments are estimates of future spending that restrict the County's available fund balance, the Auditor-Controller's Accounting Division instructs departments to monitor and cancel unneeded commitments at the end of each fiscal year. Cancelled commitments return to the County General Fund and are available for future appropriation by the Board of Supervisors.

We reviewed 15 of the 453 commitments established by the Sheriff's at the end of the fiscal year, totaling approximately \$15.6 million, and noted seven (47%) commitments, totaling approximately \$778,000, that should have been cancelled. Two of these commitments had been carried forward from prior fiscal years. Sheriff's management should reinstruct fiscal staff on procedures for cancelling commitments and monitor for compliance.

**Recommendation**

11. **Sheriff's management reinstruct fiscal staff on procedures for cancelling commitments and monitor for compliance.**





LEROY D. BACA, SHERIFF

**County of Los Angeles**  
**Sheriff's Department Headquarters**  
4700 Ramona Boulevard  
Monterey Park, California 91754-2169



November 13, 2013

Wendy L. Watanabe, Auditor-Controller  
County of Los Angeles  
525 Kenneth Hahn Hall of Administration  
Los Angeles, California 90012

Dear Ms. Watanabe:

**RESPONSE TO THE AUDITOR-CONTROLLER'S REVIEW OF THE LOS ANGELES  
COUNTY SHERIFF'S DEPARTMENT'S SPECIAL FUNDS, TRUST FUNDS, AND  
ACCRUALS REVIEW REPORT**

Attached is the Los Angeles County Sheriff's Department's (Department) response to your Department's review of the Department's Special Funds, Trust Funds, and Accruals Review Report.

The Department is in general agreement with the report findings as a whole and is in the process of implementing the 11 report recommendations, our response is attached.

If you have any questions regarding the Department's response, please contact Division Director Glen Dragovich at (323) 526-5191.

Sincerely,

A handwritten signature in blue ink that reads "Leroy D. Baca".

LEROY D. BACA  
SHERIFF

Attachment

**AUDITOR-CONTROLLER'S REVIEW OF THE SHERIFF'S DEPARTMENT'S  
SPECIAL FUNDS, TRUST FUNDS, AND ACCRUALS REVIEW REPORT**

**RECOMMENDATIONS AND SHERIFF'S DEPARTMENT RESPONSES**

**SPECIAL REVENUE AND TRUST FUNDS**

**SPECIAL REVENUE FUNDS**

**RECOMMENDATION 1:**

Sheriff's management evaluate special revenue taxes/service charges to ensure they reflect expenditure requirements, and develop spending plans and establish reserve accounts for the excess special funds.

**Sheriff's Response to Recommendation 1: Agree**

The Department's Special Accounts Unit is conducting an analysis of its special revenue taxes/service charges and will determine the appropriate expenditure requirements and spending plans with direction from management.

**TRUST FUNDS**

**RECOMMENDATION 2:**

Reconcile trust funds and sub-accounts monthly as required, ensure that reconciliations are reviewed and approved, and that unreconciled differences are promptly investigated and resolved.

**Sheriff's Response to Recommendation 2: Agree**

The Department's Special Accounts Unit will ensure that monthly reconciliation of its trust funds and sub-accounts are performed, including the review/resolution of all unreconciled differences.

**RECOMMENDATION 3:**

Maintain detailed subsidiary ledgers for all trust funds and sub-accounts.

**Sheriff's Response to Recommendation 3: Agree**

The Department's Special Accounts Unit will create detailed subsidiary ledgers for all trust funds and sub-accounts.

**RECOMMENDATION 4:**

Develop and maintain documentation indicating the purpose and authority of each trust fund, and ensure that trust funds are used as intended.

**Sheriff's Response to Recommendation 4: Agree**

The Department's Special Accounts Unit will establish in writing the purpose and use of each trust fund/sub-account in the permanent record and ensure that trust funds are used as intended.

**MONITORING FUNDS**

**RECOMMENDATION 5:**

Closely monitor trust funds to ensure timely disbursement of trust monies.

**Sheriff's Response to Recommendation 5: Agree**

The Department's Special Accounts Unit has created a timeline to monitor trust funds to ensure the timely disbursement of trust monies.

**RECOMMENDATION 6:**

Research all temporary disability payments held in trust and release funds as appropriate.

**Sheriff's Response to Recommendation 6: Agree**

The Department's Pay and Leave Management Unit will conduct a review of pending disability payments and advise the Special Accounts Unit prior to releasing funds for payment.

**RECOMMENDATION 7:**

Ensure they close funds/sub-accounts that are no longer needed and appropriately dispose of any remaining balances.

**Sheriff's Response to Recommendation 7: Agree**

The Special Accounts Unit will research their trust funds to determine the status of proper disposition and will close the funds/sub-accounts that are no longer needed and appropriately dispose of any remaining balances.

UNCLAIMED FUNDS

**RECOMMENDATION 8:**

Discontinue transferring unclaimed funds to the Department's operating revenue and refer these funds to the TTC according to statutory time frame requirements.

**Sheriff's Response to Recommendation 8: Agree**

The Department will work with the CEO to determine how these unclaimed funds are to be transferred. Unclaimed funds revenue is included in the Department's annual budget. If these funds are transferred to TTC it will create a budget shortfall.

**RECOMMENDATION 9:**

Research all current unclaimed funds to determine when amounts should be referred to the TTC.

**Sheriff's Response to Recommendation 9: Agree**

The Department's Special Accounts Unit is in the process of reviewing its unclaimed funds prior to determining final disposition and referral to TTC.

**RECOMMENDATION 10:**

Sheriff's management should modify departmental records to separately account for unclaimed funds with different referral time frames.

**Sheriff's Response to Recommendation 10: Agree**

The Department Special Accounts Unit is implementing changes to departmental records to separately account for unclaimed funds which may have different referral time frames.

COMMITMENTS

**RECOMMENDATION 11:**

Sheriff's management to instruct fiscal staff on procedures for canceling commitments, and monitoring for compliance.

**Sheriff's Response to Recommendation 11: Agree**

The Department's Accounts Payable Unit will conduct training and provide procedures for canceling commitments and monitoring for compliance.