

Trust Funds

Reason for the report

The 2003/2004 Grand Jury chose to review county trust fund accounts.

Scope of the investigation

People interviewed

- Auditor-Controller
- Assistant Auditor-Controller
- Chief Administrative Officer (CAO)
- Members of the Board of Supervisors (BOS)

Documents reviewed

- BOS Agenda Transmittal Sheet dated 03/02/04
- Letter dated 2/11/04 from the Auditor-Controller to the BOS with attachment
- Trust Fund Accounts Reconciliation Sheets for fiscal year ending 6/30/03

Background

The Grand Jury attended the BOS meeting on 3/02/04 and received a copy of the Auditor-Controller's letter dated 2/11/04, which listed all trust fund accounts and balances.

A trust fund is a reserve account created to set aside money for a specific purpose prior to its expenditure and reported separately from general fund accounts. The Grand Jury was concerned about the number of open trust funds, the frequency of validation and reconciliation of the trust fund accounts, and the authorization procedures for establishing trust fund accounts by departments.

Facts

1. Department heads are not required to reconcile trust fund accounts. As of 6/30/03, five departments had 15 unreconcilable trust fund accounts totaling \$156,733.
2. As of 6/30/03, there existed 387 open trust fund accounts totaling \$111,153,594.
3. There are 47 open trust fund accounts with a zero balance.
4. California and Federal grant trust accounts generally have expenditure closing dates. Not all County trust fund accounts have closing dates.
5. The County does not have written procedures for authorizing, reconciling and closing trust fund accounts.
6. The Auditor-Controller tracks receipts, expenditures, and balances for each individual trust fund account.

Findings

1. Department heads are relied upon, but not required, to reconcile their department trust fund accounts.

Response to Finding 1: The respondent agrees with the finding. The Auditor/Controller, in compliance with changes in accounting standards, is in the process of reclassifying many trust funds to special revenue funds. This change will be effective July 1, 2004. The special revenue funds will be reflected in the FY 2004/05 Adopted Budget for the first time. This entails establishing the trust funds' fund balance, amount of revenue anticipated to be received, amount of funds to be expended, and remaining fund balance.

During the Summer of 2004, Departments were asked to review the trust fund database to identify all active trust funds as well as the trust funds' statutory requirements.

2. Not all department trust fund accounts set up from county budget funds have a scheduled completion or expiration date. Encumbering funds for a long time can cause the loss of its intent and purpose of the trust fund.

Response to Finding 2: The respondent agrees with the finding. In addition to the information provided in response to finding #1, the Chief Administrative Office cleaned-up over \$700,000 of old encumbrances, closed these accounts and removed them from the county books. In addition, the Auditor/Controller has closed dozens of trust fund accounts that have over time been rendered obsolete. Admittedly, some trust funds have no expiration dates due to their statutory requirements.

3. As of 6/30/03, forty-seven trust fund accounts have a zero balance.

Response to Finding 3: The respondent agrees with the finding. The Auditor/Controller has closed dozens of trust fund accounts that have over time been rendered obsolete. Also, some trust funds are tapped annually to draw all available funds for purposes of expenditure. These trust funds actually have revenue pass through them but are emptied by year-end and would reflect a zero balance at that point in time. The creation of special revenue funds in FY 2004/05 will budget this activity.

4. Lack of written procedures by the County for authorizing, reconciling, and closing trust fund accounts creates inconsistency and confusion.

Response to Finding 4: The respondent agrees with the finding. The Auditor/Controller, in compliance with changes in accounting standards, is in the process of reclassifying many trust funds to special revenue funds. This change will be effective July 1, 2004. The special revenue funds will be reflected in the FY 2004/05 Adopted Budget for the first time. In addition, the Auditor/Controller has closed dozens of trust fund accounts that have over time been rendered obsolete.

Recommendations

1. Maintenance and reconciliation of each trust fund account must be reviewed by each department and justified to the CAO on an annual basis.

Response to Recommendation 1: The recommendation has been implemented. During the Summer of 2004 Departments were asked to review the trust fund database to identify all active trust funds as well as the trust funds' statutory requirements. As a result of this evaluation the Auditor/Controller has closed dozens of trust fund accounts that have over time been rendered obsolete. This review will be conducted on an annual basis in conjunction with the budgeting of special revenue funds that reflect the trust fund activity on a department by department basis.

2. County must establish definitive schedules for the expenditure of funds in trust accounts.

Response to Recommendation 2: The recommendation has been implemented. The Auditor/Controller, in compliance with changes in accounting standards, is in the process of reclassifying many trust funds to special revenue funds. This change will be effective July 1,2004. The special revenue funds will be reflected in the FY 2004/05 Adopted Budget for the first time. This entails establishing the trust funds' fund balance, amount of revenue anticipated to be received, amount of funds to be expended and remaining fund balance.

3. County must review the need for trust fund accounts that have zero balance and close those whose need cannot be justified as to remaining open.

Response to Recommendation 3: The recommendation has been implemented. During the Summer of 2004 Departments were asked to review the trust fund database to identify all active trust funds as well as the trust funds' statutory requirements. As a result of this evaluation the Auditor/Controller has closed dozens of trust fund accounts that have over time been rendered obsolete. This review will be conducted on an annual basis in conjunction with the budgeting of special revenue funds that reflect the trust fund activity on a department by department basis.

4. Unjustified or unused balances must be transferred (escheated) to the general fund.

Response to Recommendation 4: The recommendation has not yet been implemented, but will be implemented in the future. The Chief Administrative Office and the Auditor/Controller will identify those trust funds where there is no statutory preclusion from transferring existing balances to the county general fund.

5. County must write procedures to include requirements for the authorization, reconciliation, and closure of trust fund accounts.

Response to Recommendation 5: The recommendation has been implemented. The Auditor/Controller, in compliance with changes in accounting standards, is in the process of reclassifying many trust funds to special revenue funds. This change will be effective July 1, 2004. The special revenue funds will be reflected in the FY 2004/05 Adopted Budget for the first time. This entails establishing the trust funds' fund balance, amount of revenue anticipated to be received, amount of funds to be expended and remaining fund balance.