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County of El Dorado

OFFICE OF AUDITOR-CONTROLLER

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August 13, 2007

Board of Supervisors
County of El Dorado
330 Fair Lane
Placerville, California 95667

Subject: Board Policy B-1, Budget Control and Responsibility

Ladies and Gentlemen:

It is my understanding that the CAO will present to you a report on Board Policy B-1 on August 14, 2007. I have not yet seen a copy of the CAO's report so some of the comments included in this letter may be redundant.

For a variety of practical reasons, since 1993, the Auditor-Controller's office has NOT operated in full compliance with Policy B-1. The bulk of the Auditor-Controller's responsibility under this policy is in Section 2.

Section 2 requires the Auditor-Controller to not pay departments expenditures when the expenditures exceed BOS approved appropriations. Based on the advice of County Counsel and Human Resources, prior to 1993, it was decided not to enforce the policy as it relates to payroll expenditures. The County has a legal obligation to pay its employees even when a department head has authorized expenditures in excess of budget. Further, we continue to pay bills submitted by departments after June 30th of each year even if appropriations have been exceeded. As an example, the failure to process invoices for services provided prior to June 30, 2007, would lead to the overstatement of the County's fund balance. This would cause significant problems and confusion for your Board during the budget hearings that we will conduct in September. We do each year shortly after the books are closed in August provide your Board with a departmental budget performance schedule, which indicates which departments exceed their appropriations.

Section 2 of Policy B-1 requires the Auditor-Controller, "to not allow payments to be processed or disbursed when over-expenditures of individual line items accounts have occurred, or will be caused to occur..." The Auditor-Controller's Office has not enforced this aspect of B-1 since September 23, 1993. On September 23, 1993, the then CAO issued a memo to all Department Heads stating, "Transactions requiring only department approval: The department may transfer appropriations and estimated revenues between subobjects (individual line items) within any class... within an index code or from one index code to another, within a subfund, within a department budget." The 1993 memo from the CAO's Office clearly delegated the authority to expend funds regardless of the expenditures affect on

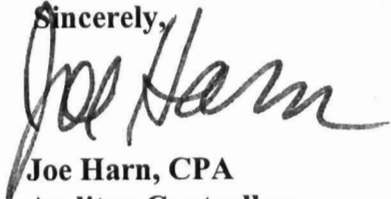
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individual budget line items to the Department Heads. As of this writing, I am unaware of the specific authority that the Board of Supervisors delegated to the then CAO, which authorized the CAO modify Policy B-1.

Regardless of the County Staff's long history of ignoring Policy B-1 as it relates to payroll transactions and individual line item expenditures, it is my recommendation that your Board continue to insist on the strict compliance with B-1 as it relates to total Departmental Appropriations and total Departmental Estimated Revenues.

If you have any questions, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Harn". The signature is written in a cursive style with a large initial "J".

Joe Harn, CPA
Auditor-Controller

Attachment: CAO Letter Dated September 23, 1993

CC: Laura Gill, CAO

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**CHIEF ADMINISTRATIVE OFFICE
INTERDEPARTMENTAL CORRESPONDENCE**

September 23, 1993

TO: Department Heads

FROM: Paul McIntosh *Paul*
Chief Administrative Officer

SUBJECT: Budget Control

Background and Overview

Now that FAMIS is up and running fairly smoothly it is time to address system budget controls. We discussed changes in the way we would control budget revisions during Bprep training earlier this year, so much of this will not be new. In the main, we simplified the process for budget revisions by reducing the number of transactions requiring CAO approval.

Our goal is to give the departments as much flexibility to manage their budgets as possible.

The policies prohibit overexpenditure of funds, as well as govern approval paths for appropriation and estimated revenue transfers, via a control hierarchy beginning with the subfund, then department, class, and finally in some cases, the subobject.

Budget Controls

In general, the following three approval levels will prevail.

I. Transactions requiring only department approval:

The department may transfer appropriations and estimated revenues between subobjects within any class (except as stated below), within an index code or from one index code to another, within a subfund, within the department budget.

II. Transactions within a department budget requiring Department and CAO approval:

The department may, upon CAO approval, transfer appropriations and estimated revenues from one Class to another.

The department may, upon CAO approval, move appropriations from or to cost applied accounts, professional & specialized services subobjects, fixed asset subobjects, and overtime. See the discussion below regarding sensitive subobjects.

III. Transactions within a department budget requiring Department, CAO and BOS approval:

The department may, with CAO and Board approval increase or decrease overall subfund appropriations and estimated revenues within a department (this includes additional revenue, use of reserves and/or contingency).

Sensitive Objects and Subobject Control

In addition to the above controls this office must approve movement of funds between several sensitive objects and subobjects. This additional control will prohibit departments from moving funds into or out of these objects and subobjects. (The departments will, however, be able to move budgeted amounts, in the same object and subobject, between index codes within the department and subfund.)

Overtime - 5002

Cost Applied:

- Worker's Compensation - 5300
- Communications - 5700
- Insurance - 6000
- Courier - 6703
- Mail - 6704
- Cost Applied Fixed assets - 9201 to 9202

Professional/Specialized Services - object 680 (the department can move appropriations around within the Professional/Specialized Services subobjects -6800 through 6839 except 6801).

Fixed Assets 9200 through 9205 (includes the cost applied subobjects listed above).

Routing

1. All account transactions requiring CAO and BOS approval must be sent to the CAO office directly.

DO NOT SEND TRANSACTIONS REQUIRING CAO AND BOS APPROVAL TO THE AUDITORS.

2. Transactions requiring department approval only should be sent directly to the Auditor.

Department Head Responsibility

Per Board policy and state law, each department head is personally responsible for the proper administration of their budget. The new management information system, revised and relaxed budget controls discussed here, does not change that.

PM/TES/SJ

cc: CAO Analysts, Tom Soike, Board of Supervisors