



# BROWN ARMSTRONG

*Certified Public Accountants*

To the Honorable Board of Supervisors  
County of Santa Barbara, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Santa Barbara, California (the County) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency, which is described in the attached Schedule of Findings and Recommendations as Finding 2014-1.

This communication is intended solely for the information and use of management, the Board of Supervisors, the County, and others within the County, and is not intended to be and should not be used by anyone other than these specified parties

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August 25, 2014

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**COUNTY OF SANTA BARBARA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
JUNE 30, 2014**

**Finding 2014-1**

**Condition:**

We noted that there were several prior period adjustments on the Government-wide Statement of Net Position for governmental activities related to 1) construction in progress and 2) capital versus maintenance costs. Some of the prior period adjustments were for large software projects that had not included salaries and benefits and other development costs as project costs. Two adjustments had expensed heating and air-conditioning systems instead of capitalizing these costs. Additionally, several adjustments were the result of departments not realizing the difference between capital budgeting and the requirements for financial reporting capitalization. The prior period adjustments resulted in increases to the government-wide net position of \$2.4 million, offset by decreases totaling \$3.2 million, resulting in a net decrease of \$756 thousand.

**Criteria:**

Capital Assets should be properly recorded in accordance with the County's Capital Asset Policy and accounting principles generally accepted in the United States of America.

**Cause of Condition:**

The departments did not possess adequate knowledge of how to properly record capital assets in accordance with the Capital Assets Policy and accounting principles generally accepted in the United States of America.

**Effect of Condition:**

The capital assets and related expenses were misstated in the prior year financial statements.

**Recommendation:**

We recommend that the County review its current policies and procedures, and provide training on this subject to ensure that departments can better understand the capitalization requirements in accordance with accounting principles generally accepted in the United States of America, and the County's Capital Asset Policy for more accurate and timely financial reporting.

**Management Response:**

The Department of the Auditor Controller (the Department) acknowledges instances of incorrect booking of capital assets in the County's financial statement system. The Department is currently working on an update to the Capital Asset Policy which will provide clear instructions on how to record capital assets, including the recording of software development project phases. In addition, the Department, in conjunction with the County Executive Office, will prepare training for County staff to explain differences in capital budgeting vs. capital asset financial reporting along with an overview of capital asset policies and procedures.