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County of Santa Barbara

# Review of Sheriff's Council Donations

*Office of the Auditor-Controller*  
12/22/2005

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*Note: This review should not be construed as an audit of the finances of Sheriff Department donations and associated equipment expenditures, nor an audit of Sheriff Council financial records. Our scope was to compile information to determine compliance with county gift acceptance policies.*

## Executive Summary

From 1994 to November 2005, the Santa Barbara County Sheriff's Department has received over \$2 million in donations from the Sheriff's Council. Over half of this amount has been received since January 2003. Our review identifies the types and purposes of donations received and determined whether or not these amounts were technically accepted by the County Board of Supervisors per County Gift Acceptance Policy.

As a confirmation step, we also reviewed annual tax returns (IRS Form 990s) of the Sheriff's Council (SC) to verify that amounts received by the Sheriff corresponded with amounts the SC reported that they distributed to the Sheriff. As an additional step in our review, we completed a year-by-year comparison of revenues and expenses as reported by the SC on the 990s.

In the end, we found that all donations received had either been implicitly or appropriately accepted by the Board of Supervisors. We also noted that the actual amount of donations received by the County were less than what the SC reported to have contributed to Sheriff program expenses on their form 990s. However, we have made the conclusion that the difference most likely went as payments to other entities rather than to the Sheriff's Department.

# Review of Donations Received from Sheriff's Council

## Types of Donations Received

**Type 1 (Equipment Reimbursements).** From our review, the Sheriff's Department has received two types of donations from the Sheriff's Council (SC). The first type of donation has been for the purchase of specialized equipment, supplies, and safety gear. The process used to receive this donation type has been based on an expense-reimbursement basis subsequent to SC approval of the purchase and a pledge to reimburse.

Once the purchase has been made by the Sheriff's Department, the invoice is sent to the SC requesting reimbursement. Upon approval of the invoice, the SC forwards a payment to the Sheriff's Department, who then records the amount as "donated revenue" in the County Treasury General Fund. A limited listing of the types of items purchased and their approximate purchase year by the Sheriff's Department is shown below.

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<u>1994</u> Explosive Ordinance Disposal Suit Three-way Communications System for Explosive Disposal Team Communications Equipment Adaptable to Riot Helmets for Mounted Unit Wireless Communications Equipment for Underwater/Dive Team Night Vision (goggles) Systems Breathing Apparatus Communication System	<u>1998-1999 (continued)</u> Fire Department Helicopter Repair Meth Lab Safety Equipment Patrol Boat Upgrade Search & Rescue Equipment Fire GPS Confidential Projects Generator
<u>1996-1997</u> Mounted Unit Helmet and Communications Kits Tactical Lights for Special Operations Night Vision Equipment Search and Rescue RLT Direction Finders Portable Radios - Gang Equipment Forward Looking Infrared System (FLIR)	<u>2004</u> Chevrolet Tahoe Radios Bullet Proof Vests Computers Other Equipment
<u>1998-1999</u> Mobile Crime Lab Vehicle Aviation Moving Map System Aviation Sunlite System Avionics Aviation Night Vision Goggles Digital Camera Kits Entry Vests Fiber Optic Video Camera	<u>2005-2006</u> Tazers Protective Vests SWAT Vests Law Enforcement Operations Equipment Custody Operations Equipment Coroner Equipment In-Car Video Equipment, Software Homeland Security Equipment Investigative Equipment, Software Training Equipment Aviation Parts, Repairs

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**Type 2 (DARE Program Contributions).** Our review showed that the second type of donation received by the SC was for contributions for the Drug Abuse Resistance

Education (DARE) program. SC contributions to the DARE program have not been on a reimbursement basis. Rather, amounts are either requested or received by the SC and then placed in an Agency (custodial) Fund in the County Treasury.

Contributions made from non-SC entities are also placed in the Agency Fund in order to earn interest on these funds until specific expenditures are made. In earlier years, disbursements for DARE expenses were paid directly out of the Agency Fund. In recent years, however, DARE expenses are paid from the Sheriff's Department operating budget and an offsetting transfer from the Agency Fund is made to recover the expense. The DARE program was inactivated in 2004, and a balance of \$54,401 remains in the Agency Fund.

## Amount of Donations Received

**Type 1 (Equipment Reimbursements).** For ease of explanation, the amounts presented are on a calendar year basis rather than the County's fiscal year ending each June 30. We began our confirmation of donations received from the inception of the Sheriff's Council (SC) in 1994 and went through 2004 for 11 complete years. The source for our numbers is the County's Financial System (FIN). We reviewed Sheriff Department revenues recorded in the County's "Donation" account and backed-out identifiable non-SC amounts, with the balance presumed to be from the SC.

Our results showed that over this 11-year period, \$1,509,058 was received by the Sheriff's Department from the SC. Since 2005 has not been completed, we did not include current year amounts in the above total. However, we have noted that \$590,480 has been received in 2005 thru November 30. The almost 12-year total is \$2,099,538. As a side note, since this donation type is based on expenditures, we asked the Sheriff's Department to match expenditures with donation revenues. They provided the requested information and minimal exceptions were noted.

**Type 2 (DARE Contributions).** In order to determine how much has been received from the SC for DARE during the same time period, we relied on the Sheriff's Department since the Agency Fund set up for DARE receives contributions from entities other than the SC. The total of deposits as determined by the Sheriff is \$76,990.

		Type 1 (Equipment Reimbursements)	Type 2 (DARE Contributions)	Total
YR 1	CY 1994	\$ 40,000	\$ -	\$ 40,000
YR 2	CY 1995	-	-	-
YR 3	CY 1996	70,000	-	70,000
YR 4	CY 1997	-	-	-
YR 5	CY 1998	60,100	-	60,100
YR 6	CY 1999	271,684	-	271,684
YR 7	CY 2000	22,461	39,260	61,721
YR 8	CY 2001	214,768	7,730	222,498
YR 9	CY 2002	125,817	15,000	140,817
YR 10	CY 2003	140,360	15,000	155,360
YR 11	CY 2004	563,868	-	563,868
	<i>11-Year Total</i>	<u>\$ 1,509,058</u>	<u>\$ 76,990</u>	<u>\$ 1,586,048</u>
YR 12	CY 2005 (thru 11/30)	590,480	-	590,480
	<i>Almost 12-Year Total</i>	<u>\$ 2,099,538</u>	<u>\$ 76,990</u>	<u>\$ 2,176,528</u>

# Donation Acceptance by Board of Supervisors

## Current County Policy

The current County policy on "Acceptance of Gifts," (last updated on 12/7/1999) provides that gifts of \$5,000 or more should be accepted or rejected by the Board of Supervisors upon the recommendation of the department receiving the gift. The department recommendation should be in the form of a Board Letter, which should include the additional ongoing costs for the County upon gift acceptance.

### Policy

Government Code Section 25355 authorizes the Board of Supervisors to accept or reject any "gift, bequest or device" made to the County. By resolution the Board of Supervisors delegated to department heads (both elected and appointed) the authority to accept any gift, bequest or device in a sum not to exceed "\$5,000 earmarked for purposes which are within the jurisdiction of such department head. The County Administrator may accept gifts not exceeding \$5,000 to the Board of Supervisors not designated for any particular purpose.

### Procedures

Departments receiving gifts exceeding \$5,000 should prepare a letter recommending Board acceptance or rejection of the gift. Board letters should contain an estimate of annual operating expenses associated with any equipment donated and subsequently accepted by the County. Action of the Board will result in a minute order of acceptance or rejection. If rejected, the gift shall be returned to the rightful owner.

In the case of acceptance of equipment or fixed assets, copies of the minute order should be transmitted to the Purchasing Agent and the Inventory Control Officer who will tag and record the item on the departmental fixed asset inventory.

In the case of acceptance of monetary gifts, the minute order will authorize deposit of the funds into the appropriate trust account.

Government Code Section 25355 referred to the County policy is similar, but is more generous with the dollar amount of the gift for acceptance:

**25355.** The board may accept or reject any gift, bequest, or devise made to or in favor of the county, or to or in favor of the board in trust for any public purpose. The board may delegate to any county officer or employee the power to accept any gift, bequest, or devise made to or in favor of the county. The officer or employee shall file with the board each quarter a report that describes the source and value of each gift valued in excess of ten thousand dollars (\$10,000) or any other amount as determined by the board. The board may hold and dispose of the property and the income and increase thereof for those lawful uses and purposes as are prescribed in the terms of the gift, bequest, or devise. In accounting for or inventorying gifts, bequests, or devises, the officer or employee shall follow the appropriate procedures contained in the State Controller's manual entitled "Accounting Standards and Procedures for Counties."

## Past Acceptance Practices

During our review, we wanted to determine if donations received by the SC had in fact been “accepted” by the Board of Supervisors (BOS) under the terms of the County policy for gift acceptance. We found that the BOS was notified of the donation revenue being received and had taken some type of action to approve the receipt of the donation under three general methods.

- In the early years (FY 1994-95 thru 1996-97), the Sheriff’s Department prepared individual board letters with specific wording to accept each SC donation. The board letters included an itemized listing of the specific equipment for which the donation was going to be used. Also included with the board letter and added as a recommendation was a budget revision request that increased the budget of expenditure accounts where the equipment purchases would be made with an increase for the same amount to the budgeted donation revenue account. This process is consistent with county policy, and is also the way that SC donations were accepted by the BOS in FY 2004-05. However, the actual donations were recorded in both FY 2004-05 and FY 2005-06. Of the total recorded donations of \$2,099,538, the Board formally accepted \$1,149,997 and the remainder of \$949,541 only went through the budget process as explained in the next two paragraphs.
- From FY 1997-98 to FY 2003-04, the Sheriff’s Department included an estimate of SC donation revenue in their adopted budget, which means that a separate board letter was not written for these amounts. During this period, estimated SC donations went through this process as opposed to the earlier process when specific board letters were written, which itemized the equipment and provided acceptance language. It could be determined that the amounts received were not technically accepted under the county’s current policy. However, the BOS had implicitly accepted the donation as a result of adopting the budget for each respective year.
- Also during FY 1997-98 to 2004-05, if donation revenue was received in excess of the amount estimated in the adopted budget, the Sheriff’s Department would prepare a budget revision request for the supplemental donation. However, the supplemental budget revision was processed with other budget revisions, without a special board letter recommending acceptance of the donation. As with the estimated amounts that went through the adopted budget process, these supplemental requests may not be technically correct under the policy, but the BOS’s approval of the budget revision shows implicit approval and acceptance.

Beginning with the 2005-06 fiscal year, the Sheriff’s Department has stopped including SC donation estimates in their adopted budget. Additionally, the County, on a countywide level, is reviewing its policy and procedures related to donations to determine the best way to recommend to the BOS acceptance or rejection of donations as appropriate in order to remain within the requirement of government code section 25355.

## Timing Issue

As mentioned earlier, the SC requires that the expense for “Type 1” donations be made prior to the Sheriff’s Department receiving any donation proceeds. We were informed that this was to allow the SC to fully earn interest earnings. While the intent behind maximizing interest is commendable, the execution of this practice appears to conflict with county budgeting and accounting rules.

In governmental budgeting and accounting, an expenditure cannot be made without a legal appropriation authorizing the expenditure. The SC reimbursement requirement counters the necessary legal appropriation needed. To mitigate this issue, the Sheriff’s Department at times spends from appropriations established for other purposes and then once the donation revenue has been received by the SC, the Sheriff’s Department requests from the BOS the supplemental appropriation for the equipment that has already been purchased. While this “catch-up” process may work for small dollar amounts, large equipment purchases could cause the Sheriff’s Department to overbudget other items or make unnecessary adjustments to their budget to prepay for the items to be later reimbursed by the SC.

Our recommendation would be that once the SC has preliminarily approved the intended purchases that they then make a payment to the Sheriff’s Department. The Sheriff can next proceed with the board letter and budget revision request. Once the BOS accepts the donation and approves the budget revision, the appropriation will then be available for spending. The Sheriff’s Department should provide a report to the SC on how the donation was spent and if there is any overage or shortage from the donation distribution.

# Review of Sheriff Council IRS Form 990s

## Limitation of 990 Review

We obtained copies of the Sheriff's Council's annual tax returns for tax-exempt organizations (990s). The copies we obtained were for the 1994 through 2004 tax and calendar years. Some of the copies were not available in their entirety so some of our review reflects some incomplete data. Also, we did not obtain copies of specific transactional detail that would be in the possession of the SC. Our numbers and comments are based merely on data that could be extracted from the 990s.

A main purpose behind reviewing the 990s was to confirm that the amounts that the Sheriff's Department had received equaled the amounts that the SC reported to have distributed directly to the Sheriff's Department for their programs. An additional task we were able to complete since we had the 990s is to prepare year-by-year analysis of the financial activity of the SC (see Attachment A).

## 990s At-A-Glance

**Revenues.** The SC has raised \$3.7 million from 1994 to 2004. Of this amount, almost \$3.5 million has come from contributions. The balance is from dues, interest earnings, and other. Furthermore, almost half of the \$3.7 million has been raised in the most recent two-year period (2003 and 2004). The net proceeds from "Sale of Assets" appear to be for the sale of jackets.

In addition, the gross proceeds of special events are shown as \$927,632 on the 990s with offsetting costs of \$889,582, leaving the net of \$38,050 for this 11-year period.

	<b>Total (1994-2004)</b>
<b>Revenues:</b>	
Contributions	3,456,624
Dues	157,060
Interest Earnings	55,994
Other	19,378
Subtotal	<u>3,689,056</u>
<b>Special Events</b>	
Special Events Revenue	927,632
Special Event Expenses	(889,582)
Special Event Net Proceeds	<u>38,050</u>
<b>Sale of Assets</b>	
Sales Revenue	22,353
Cost of Assets Sold	(24,001)
Sale of Assets Net Proceeds	<u>(1,648)</u>
<b>Total Revenue</b>	<b><u>3,725,458</u></b>

**Administration & Fundraising Expenses.** Administration and fundraising expenses of \$488,923 accounts for 19.8% of total expenses and 13.1% of total revenues raised. This category almost doubled from 2003 to 2004, increasing to \$123,966 from \$73,542. The largest type of expense is for contracted services. The other items under \$20,000 are listed in Appendix A.

	<b>Total (1994-2004)</b>
<b>Expenses:</b>	
<u>Administrative &amp; Fundraising</u>	
Contracted services (SC Stmt)	123,614
Other - management & general	107,938
Printing & publications	59,890
Bank Charges (SC Stmt)	25,087
Postage & shipping	24,732
Accounting fees	24,379
Supplies	22,616
Other - under \$20,000	100,667
Subtotal	<u>488,923</u>

**Program Expenses.** In general, we found that the SC made contributions to Sheriff programs both directly to the Sheriff's Department and through other means. This comes from the fact that the SC reported a higher amount paid for Sheriff programs than what the Sheriff's Department actually received. When differences were noted, we assumed that those amounts were made to entities other than the Sheriff's Department, but were for the purposes listed on the 990s.

Our review shows that from 1994 to 2004, the SC distributed \$1,983,730 for Sheriff programs: \$1,582,073 went directly to the Sheriff's Department, and \$401,657 went to other entities on behalf of Sheriff programs. We could not determine who the exact payees were for the \$401,657, but the descriptions listed include: equipment purchases, DARE support, other programs, public awareness, deputy and spouse dinners, family day, and other support for Sheriff programs.

	<b>Total (1994-2004)</b>
<b>Expenses:</b>	
<u>Program Expenses</u>	
<i>Payments Directly to Sheriff Dept</i>	
Purchase Equipment	1,505,083
Support DARE & Other Programs	76,990
Subtotal	<u>1,582,073</u>
<i>Payments Not Directly to Sheriff Dept</i>	
Purchase Equipment	47,717
Support DARE & Other Programs	179,487
Increasing Public Awareness	74,662
Deputy & Spouse Dinner	69,180
Sheriff Family Day & Other	9,691
Support for Sheriff's Dept	20,920
Subtotal	<u>401,657</u>
Total Program Expenses	<u>1,983,730</u>

## Conclusion

Our review showed that for the most part, donations received by the SC had been accepted either explicitly or implicitly by the County Board of Supervisors. For donations that were based on reimbursement of actual costs, matching expenditures were identified with minimal exceptions.

An overview of the SC 990s showed that the Sheriff's Department received some lesser amounts than reported by the SC. However, we are presuming that the difference went for Sheriff's programs as disclosed by the SC, but did not flow directly to the county.

We are currently reviewing our countywide donation acceptance policy and practices in order to remain in compliance with the requirement to have the Board of Supervisors officially accept or reject donations.

Finally, we are making a recommendation that the SC provide donations upon approval of planned purchases so that the Sheriff's Department can have the legal authority to spend prior to the purchase, rather than the current reimbursement-based practice, which causes unnecessary complexity.

For the 11-year period ending 12/31/2004, the SC still had approximately \$1.2 million in net assets available for distribution to Sheriff programs.