



A Tradition of Stewardship
A Commitment to Service

Napa County
Napa Special Investigations Bureau
Special Investigations Revolving Fund

Internal Audit Report
For the Fiscal Year Ended June 30, 2013

Issued by
AUDITOR-CONTROLLER
Internal Audit Section
April 24, 2014

**NAPA COUNTY
NAPA SPECIAL INVESTIGATIONS BUREAU
SPECIAL INVESTIGATIONS REVOLVING FUND**

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Auditor-Controller

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Tracy A. Schulze
Auditor-Controller

INTERNAL AUDITORS' REPORT

Honorable Board of Supervisors
Napa County
Napa, California

In accordance with the requirements of section 25250 of the Government Code of the State of California, we have audited the financial statements of the Napa Special Investigations Bureau (Department) – Special Investigations Revolving Fund (Fund) as of and for the fiscal year ended June 30, 2013. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on the financial statements based on our audit. In connection with the audit contained herein, there are certain disclosures that are necessary pursuant to Generally Accepted Government Auditing Standards (GAGAS) general statement #2.

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair GAGAS independence standards. Specifically, "Auditors should not audit their own work or provide nonaudit services in situations where the amounts or services involved are significant/material to the subject matter of the audit."

Although the office of Auditor-Controllers are statutorily obligated to maintain the accounts of departments, districts, or funds that are contained within the County treasury, we believe that the following safeguards and division of responsibilities exist that would enable the reader of this report to rely on the information contained herein:

- The Internal Audit Section is not responsible for the input or reconciliation of any financial transactions.
- County policy requires the Board of Supervisors approval for material transactions.
- The Auditor-Controller is elected by and accountable to the Citizens of Napa County.
- Internal Audits are subject to an independent peer review every 5 years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements presents only the financial position of the Fund and are not intended to present fairly the net assets and changes in net assets of Napa County in conformity with accounting principles generally accepted in the United States of America.


As discussed in Note 1.C., the Department prepares its Fund financial statement on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash balance of the Department's Fund as of June 30, 2012, and the change in revenues it received and expenditures it paid for the year then ended on the basis of accounting described in Note 1.C.

We have also issued our report dated April 24, 2014, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of the audit performed and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the Fund's management and the Napa County Board of Supervisors and is not intended to be and should not be used by anyone other than these specified parties.

Tracy A. Schulze
Auditor-Controller

By 
Karen Dotson-Querin, CPA
Audit Manager

April 24, 2014

**FINANCIAL
STATEMENTS**

**NAPA COUNTY
NAPA SPECIAL INVESTIGATIONS BUREAU
SPECIAL INVESTIGATIONS REVOLVING FUND**

**BALANCE SHEET
JUNE 30, 2013**

	<u>Amount</u>
Assets	
Cash	\$ 2,761
Restricted Cash	<u>540</u>
Total Assets	<u><u>\$ 3,301</u></u>
Fund Balance	
Restricted	\$ 540
Unassigned	<u>2,761</u>
Total Fund Balance	<u><u>\$ 3,301</u></u>

The accompanying notes are an integral part of these financial statements.

**NAPA COUNTY
NAPA SPECIAL INVESTIGATIONS BUREAU
SPECIAL INVESTIGATIONS REVOLVING FUND**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Amount</u>
Revenues:	
Reimbursements	\$ 28,000
Recovered Money	<u>4,670</u>
Total Revenues	<u>32,670</u>
 Expenditures - Public Protection:	
Evidence	11,090
Information	12,470
Witness Protection	4,300
Other Expenses	<u>4,971</u>
Total Expenditures	<u>32,831</u>
 Deficit of Revenues	
Under Expenditures	(161)
 Restated Fund Balance, Beginning	<u>3,462</u>
 Fund Balance, Ending	<u><u>\$ 3,301</u></u>

The accompanying notes are an integral part of these financial statements.

**NAPA COUNTY
NAPA SPECIAL INVESTIGATIONS BUREAU
SPECIAL INVESTIGATIONS REVOLVING FUND**

**NOTES TO THE STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Napa Special Investigations Bureau (Department) Special Investigations Revolving Fund (Fund) have been prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as applied to governmental units. The financial statements of the Fund are not intended to present fairly the net assets and changes in net assets of Napa County. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fund's accounting policies are described below.

A. Description of Reporting Entity

In evaluating how to define the Fund, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB 14. Based on this criterion, component units are reported as joint ventures, reported as related organizations, or blended with the primary government. The reporting entity has no component unit.

The Department is a Countywide inter-jurisdictional narcotics and drug enforcement unit that was established as a joint powers agency to focus on large dealers of narcotics and drugs, as well as to prevent and control the illegal use of dangerous drugs within Napa County.

The Fund is part of Napa County's General Fund. The County's complete audited financial statements are available at 1195 Third Street, Room B-10, Napa, California 94559-3097 or at the County's website www.countyofnapa.org.

**NAPA COUNTY
NAPA SPECIAL INVESTIGATIONS BUREAU
SPECIAL INVESTIGATIONS REVOLVING FUND**

**NOTES TO THE STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Note 1 - Summary of Significant Accounting Policies (Continued)

B. Purpose of the Fund

The Fund is comprised of cash on hand used to purchase narcotic evidence, payment for information or services and other expenditures related to criminal case investigations. The Napa Special Investigations Bureau Manual regulates use of the Fund.

C. Basis of Accounting

The Fund is maintained on the cash basis. The balance of the Fund is increased when cash is received and decreased when cash is disbursed. Revolving funds use the flow of cash as a measurement focus. Under the cash basis of accounting, revenues are recognized when received, and expenditures are recognized when paid.

Note 2 – Cash

The Department holds the Fund's cash in the Department's safe and is available for immediate use.

When the Fund requires additional cash, the Department draws money against its General Fund budget. The check is drawn against the cash held by the Napa County Treasury and expensed to the appropriate account in the Department's budget unit. The NSIB Bureau Commander cashes the check with the Napa County Treasurer, records the additional cash in the transaction log, and safeguards the cash in the Department's safe. The activity for the audit period has been reported on the Statement of Revenues, Expenditures and Changes in Fund Balance.

**OTHER
REPORT
AND
SCHEDULES**



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Tracy A. Schulze
Auditor-Controller

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN INTERNAL AUDIT OF FINANCIAL STATEMENTS

Honorable Board of Supervisors
Napa County
Napa, California

We have audited the financial statements of the Napa Special Investigations Bureau (Department) – Special Investigations Revolving Fund (Fund) as of and for the fiscal year ended June 30, 2013, and have issued our report thereon, dated April 24, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance that are required to be reported and which are described in the accompanying Schedule of Noncompliance.

- Revolving Fund Authority - Incomplete
- Inappropriate Funding Source

The Department's response to the findings identified in our audit is described within the accompanying Schedule of Noncompliance. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Department's management and the Napa County Board of Supervisors and is not intended to be and should not be used by anyone other than these specified parties.

Tracy A. Schulze
Auditor-Controller

By 
Karen Dotson-Querin, CPA
Audit Manager

April 24, 2014

**NAPA COUNTY
NAPA SPECIAL INVESTIGATIONS BUREAU
SPECIAL INVESTIGATIONS REVOLVING FUND**

**SCHEDULE OF NONCOMPLIANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Revolving Fund Authority - Incomplete

Finding: NSIB has worked on finalizing a new MOU (retroactively effective January 1, 2014) that will supersede Napa County Agreement number 1684 and any previous MOUs. On April 1, 2014, the Sheriff, District Attorney and Chief Probation Officer received approval for the Chairman to sign the Napa Special Investigations Bureau Memorandum of Understanding with the cities of Napa, Calistoga, St. Helena, and the California Highway Patrol. As of April 3, 2014, the new proposed MOU has not been fully executed.

On October 9, 2012 NSIB presented a resolution to the Board of Supervisors to establish a revolving fund for the use of the Special Investigations Bureau (NSIB) on an interim basis until the MOU is executed and a resolution for a revolving fund can be presented to the Governing Board for approval. The Board of Supervisors approved the interim Fund. However, NSIB is a joint power agency and the establishment and changes to the revolving fund should ultimately be granted by the Governing Board.

Recommendation: We recommend that NSIB continue to obtain authorized signatures for the new NSIB Memorandum of Understanding.

Management Response: As of April 1, 2014, all required signatures have been obtained except from the California Highway Patrol (CHP). The MOU is being reviewed at the CHP Executive level. CHP requested a revision to the asset forfeiture agreement. On April 24, 2014 the request was presented to the NSIB Governing Board. Modifications to language was suggested and made and re-distributed to the Governing Board for feedback. The Asset Forfeiture will be presented for approval at the May 26th NSIB Governing Board meeting. This modification to agreement is permissible pursuant to the "Asset Forfeiture" clause in the signed MOU which requires "approval in writing by the Governing Board."

Inappropriate Funding Source

Finding: In the course of reviewing the Voucher/Expenditure Log for the fiscal year ended June 30, 2013, we noted that the Governing Board had approved the use of \$10,000 from the Asset Forfeiture Fund to pay for informant services. However, the \$10,000 deposit was made from the Special Investigations Unit's Community Service Fund. Per the California Health and Safety Code Section 11489, community service funds are intended for the development and continuation of positive intervention programs to combat drug abuse and divert gang activity for high-risk elementary and secondary school-age students. Using the funds for informant services was not in compliance with California code.

Recommendation: The Community Service Fund should be reimbursed \$10,000. We recommend the NSIB Governing Board approve to transfer \$10,000 from the Asset Forfeiture Fund to reimburse the Community Service Fund. NSIB should contact the Auditor-Controller's Office for assistance in reimbursing the Community Service Fund.

**NAPA COUNTY
NAPA SPECIAL INVESTIGATIONS BUREAU
SPECIAL INVESTIGATIONS REVOLVING FUND**

**SCHEDULE OF NONCOMPLIANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Inappropriate Funding Source (Continued)

Management Response: On October 24, 2012 (FY 2012/2013), the NSIB Governing Board approved a request to allocate \$10,000 from NSIB's Asset Forfeiture Community Trust Account for the payment of a Confidential Informant for information and services rendered. The payments were made and properly documented under NSIB's voucher #'s 12NSIB106 (\$300.00), 12NSIB109 (\$4,000), 12NSIB118 (\$250.00) and 13NSIB184 (\$5,450.00).

At April 24, 2014's NSIB Governing Board meeting, the NSIB Commander recommended the Governing Board make a motion to transfer \$10,000 from NSIB's Asset Forfeiture account to reimburse NSIB's Community Trust account in compliance with H&S 11489. The motion was made and approved by the Governing Board. The Sheriff's Administrative Manager is working with the appropriate county departments to facilitate the reimbursement.

NAPA COUNTY
NAPA SPECIAL INVESTIGATIONS BUREAU
SPECIAL INVESTIGATIONS REVOLVING FUND

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**Findings and Recommendations
Fiscal Year Ended June 30, 2012**

**Current Status of Recommendations
as of April 24, 2014**

Monthly Cash Fund Audit – Separation of Duties

Finding: In the course of reviewing the “Monthly Cash Fund Audit” form for May 2012 in the amount of \$1,347.10, we noted that the audit was performed by an individual responsible for disbursements from the Fund. According to Section 12.4 of NSIB’s Policy Manual, the Cash Fund Audit will be conducted by a designated “auditor” not associated with the fund.

Recommendation: We recommend that Policy Manual is revised so that the “Monthly Cash Fund Audit” is performed in the presence of the fund custodian (custodian) by another staff person (auditor) who does not have access to the safe where the funds are stored. We also recommend that both the auditor and the custodian initial the “Monthly Cash Fund Audit” at the completion of the audit. This process will ensure that the policy provides segregation of duties but provides efficiency in performing the task.

Implemented: As of July 2013, the “Monthly Cash Fund Audit” is being performed by another staff person not directly associated with the NSIB Revolving Fund.

NAPA COUNTY
NAPA SPECIAL INVESTIGATIONS BUREAU
SPECIAL INVESTIGATIONS REVOLVING FUND

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**Findings and Recommendations
Fiscal Year Ended June 30, 2012**

Revolving Fund Authority-Incomplete

Finding: NSIB worked with County Counsel to submit a new MOU (retroactively effective July 1, 2012) during the year ended June 30, 2012 that supersedes Napa County Agreement number 1684, but signatures still have not been obtained for authorization at the time of our field work for the audit. The MOU will grant the Joint Powers Governing Board the ability, by resolution, to establish a revolving fund, with monies from the participating agencies as included in the mutually approved budget. The revolving fund can be used as an undercover fund in order to provide the necessary flexibility to enable the Bureau to proceed with investigations. Use of the revolving fund will be subject to the policies as set forth in the Bureau Policy and Procedure Manual.

We understand that NSIB presented a resolution to the Board of Supervisors on October 9, 2012 to establish a revolving fund for the use of the Special Investigations Bureau (NSIB) on an interim basis until the MOU is executed and a resolution for a revolving fund can be presented to the Governing Board for approval. The Board of Supervisors approved the interim Fund. However, NSIB is a joint power agency and the establishment and changes to the revolving fund should ultimately be granted by the Governing Board.

Recommendation: We recommend that NSIB continue to obtain authorized signatures for the new NSIB Memorandum of Understanding and present the MOU to the Governing Board at the next available meeting.

**Current Status of Recommendations
as of April 24, 2014**

Partially Implemented: The resolution to establish a revolving fund for the use of the Napa Special Investigations Bureau (NSIB) was approved by the Board of Supervisors on October 9, 2012.

The new MOU has been drafted and submitted to the agencies' respective councils for review. The MOU is expected to be fully executed during the first quarter of the calendar year 2014, effective January 1, 2014.

Management's Update: As of April 1, 2014, the NSIB MOU has been approved and signed by all participating agencies except the California Highway Patrol (CHP). The MOU is with CHP Headquarters being reviewed.