



NAPA COUNTY OFFICE OF AUDITOR-CONTROLLER

PAMELA A. KINDIG
Auditor-Controller

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AREA CODE 707 / 253-4551

August 8, 2002

Honorable W. Scott Snowden, Presiding Judge
Superior Court of California, County of Napa
825 Brown Street
Napa, CA 94559

Dear Judge Snowden:

As required by Penal Code Section 933(c), please find attached the Napa County Auditor-Controller's responses to the 2001-2002 Grand Jury's Final Report regarding the Napa County Auditor-Controller section and the County Fire Department section.

Please contact me if you have any questions regarding my responses.

Sincerely,

A handwritten signature in cursive script that reads "P. A. Kindig".

Pamela A. Kindig
Auditor-Controller

PAK:pak

CC: Jay Hull, Napa County Executive Officer

Attachment

Napa County Auditor-Controller
Responses to Grand Jury Recommendations
Fiscal Year 2001-2002

Finding 1

The County renewed the independent audit contract with BB&R.

Auditor-Controller's Response:

We agree that the independent audit contract with BB&R was renewed.

Recommendation 1

While the Grand Jury finds no material fault with the services provided by Bartig, Basler & Ray, the Grand Jury believes that it would be prudent for the county to contract with a different accounting firm to provide its annual independent audit after the current contract with Bartig, Basler & Ray is completed. While such a change may cause the county to pay more for the required auditing services, the Grand Jury believes that such a change is warranted in order to ensure a freshness in the opinion formed by the independent auditor with regards to the county's financial statements and as well, its consideration of the County of Napa's internal control over financial reporting.

Auditor-Controller's Response:

It has always been the Auditor-Controller's intent to solicit bids for the independent audit at the conclusion of the current contract. With fewer and fewer accounting firms responding to requests for proposals to provide independent audit services to government agencies, and in particular to agencies the size of Napa County, we fully expect to have reduced competition and higher fees for the next contract. However, of utmost importance in the selection of the accounting firm is the reputation and integrity of that firm. In fact, in a 1992 Statement of Position Regarding Mandatory Rotation of Audit Firms of Publicly Held Companies, the AICPA details their reasons for taking the position that mandatory rotation is not necessary or appropriate. The Napa County Auditor-Controller has always included the Napa Grand Jury in the selection process. Therefore, the recommendation to change audit firms will be implemented if warranted after bids are solicited and scrutinized.

Finding 3

The County of Napa Contracts with BB&R to provide independent audit services. Due to the required implementation of GASB-34, the County sought additional outside professional services (accounting services) to assist with the work associated with this endeavor. The County of Napa enlisted the services of BB&R to establish Pro-Forma Financial Statements for the FYE 2001.

Response by Auditor-Controller:

We disagree with the finding because the services provided were consulting services not accounting services. We define accounting services as performing actual accounting entries into a clients financial system and/or involvement in day-to-day client operations and management decision processes. Consulting services are specifically allowed under the guidelines established by the General Accounting Office (GAO) Chapter Three-Section 26.

Recommendation 3

The Grand Jury believes that undetected potential problems could occur when the accounting firm providing the independent audit is also conducting other accounting or consulting services. This is a basic separation of duties issue, and the above-described situation should not be repeated.

In the future, the County of Napa should segregate accounting and independent audit services performed by outside companies.

Auditor-Controller's Response:

The recommendation will not be implemented because it is not warranted for the following reasons. First of all, BB&R did not perform accounting services, but merely assisted in developing the presentation format required by GASB-34 using prior year data. Secondly, the assistance in the preparation of pro-forma financial statements for a fiscal year already audited, is not a conflict of interest and does not constitute a violation of the basic concept of separation of duties. The purpose of pro-forma statements for FYE 2001, is to have a model to use to guide the Auditor-Controller in preparing the FYE 2002, GASB-34 required statements. The Napa County Auditor-Controller does not use the independent accounting firm performing the audit of the County's financial statements to perform any accounting services, and has no plans to do so in the future.

Finding 4

It is apparent that Trust Fund accounting needs further attention. As of June 30, 2001 total cash and investments in the county treasury per financial statements are \$286,540,045. Even small errors or incomplete work by the Auditor-Controller's office may have significant impact upon the accounting of public funds. The Grand Jury notes that the independent auditor did not include any comments on the accounting of Trust Funds in its prior two Management Reports (Year Ended June 30, 2000 and Year Ended June 30, 2001).

Auditor-Controller's Response:

We disagree with the finding in part. It should be pointed out that the responsibility of receiving, disbursing and reconciling Trust Funds rests with the County Department Heads, not the Auditor-Controller. As a matter of fact, it was the Auditor-Controller's Internal Audit Section that pointed out the need for departments to more closely monitor its trust funds.

Recommendation 4

The Board of Supervisors, County Executive Officer, and the citizens of Napa County should expect that the Trust Funds held by the County of Napa be accounted for in a thorough, timely and accurate manner.

Work not done at the close of accounting periods is work done poorly. The Board of Supervisors and County Executive Officer should instruct the independent auditor to review the Trust Fund accounting system, its internal control structure and procedures, and report to the Board of Supervisors those matters which it considers to be material or worthy of consideration.

Auditor-Controller's Response

The recommendation has been implemented, even during the year under review by the Grand Jury. The Grand Jury entirely overlooked the fact that the Internal Audit Section of the Napa County Auditor's Office completed a review of all departmental trust funds and filed reports with the Board of Supervisors during the fiscal years ended June 30, 2001 and 2002. Those reviews will continue. That audit work is used by the outside auditors when developing the scope of their own audit. Even though the outside auditors may not perform specific audits of trust funds, the sampling of transactions that flow through the accounting system include trust fund transactions and they are tested in the same manner as any general fund transaction.

Fire Department – Napa County
Auditor-Controller Response
Fiscal Year 2001-2002

Finding 7

In last year's NCFD Budget, there was a large surplus of revenue available at the end of the fiscal year. This is money that was not disbursed, but was "rolled over" into this year's budget and is kept in an interest bearing Fire Protection Fund (1080). The amount of money in this fund was \$3,278,727 as of 1/31/2002 according to the County Auditor.

Auditor-Controller's Response:

We disagree with the finding. The dollars identified by the Grand Jury are not "revenues" or "rolled over" funds but the cash balance in the County Treasury for the Fire Protection Fund (1080) at January 31, 2002. The actual fund balance rolls over at the close of each fiscal year and is then available for the budget process for the new year. For Fiscal Year Ending June 30, 2001 the fund balance available was \$1,520,968. We are estimating that the fund balance available for June 30, 2002 is \$2,083,394.

Recommendation 7

This Grand Jury does not have the resources to examine the reasons for this surplus or to recommend a resolution to the question of excess funding in Fund 1080. The Grand Jury recommends that the Board of Supervisors appoint a team of County staff including an auditor to look into the issue and make recommendations to the Board including changes to the MOU if necessary.

Auditor-Controller's Response:

The recommendation will be implemented if the Board of Supervisors and County Executive Officer find it necessary.