

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION - INTERNAL AUDIT UNIT

INTERNAL AUDIT REPORT

FINANCIAL AUDIT

NORTHERN CALIFORNIA REGIONAL PUBLIC SAFETY TRAINING AUTHORITY



Audit Committee Submittal Date: 04/22/19

SUMMARY

Background

The Northern California Regional Public Safety Training Authority (Authority) is a joint powers authority composed of City of Sacramento Police Department, City of Sacramento Fire Department, and Los Rios Community College District. The Authority provides public safety training to its members and other government public safety agencies in Northern California. Government Code 6505 and the Authority's joint powers agreement require the Authority's accounts and records to be audited annually. Accordingly, the Authority contracted the Department of Finance to perform the audit of its financial statements for the fiscal year ended June 30, 2018.

Audit Objective

The objective of the audit is the expression of an opinion as to whether the Authority's basic financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Summary

The Authority's financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. However, we identified some deficiencies in internal control, described in Finding Number 1 through 3 in the report.



COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE

AUDITOR - CONTROLLER

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
Audited Financial Statements and Other Reports
As of and for the Fiscal Year Ended
June 30, 2018**

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY**
Audited Financial Statements and Other Reports
As of and for the Fiscal Year Ended
June 30, 2018

Audit Staff:

Hong Lun (Andy) Yu	Audit Manager
Zai Saeteurn	Senior Auditor

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY**
Audited Financial Statements and Other Reports
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June 30, 2018

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Department of Finance

Ben Lamera
Director



Auditor-Controller Division

Joyce Renison
Assistant Auditor-Controller

County of Sacramento

March 14, 2019

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northern California Regional Public Safety Training Authority
2409 Dean Street, Room 119 (Bldg 686)
McClellan, CA 95652

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern California Regional Public Safety Training Authority (Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Sincerely,

BEN LAMERA
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.
Audit Manager

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY**
Required Supplementary Information
Management's Discussion and Analysis
As of and for the Fiscal Year Ended June 30, 2018

The Management's Discussion and Analysis (MD&A) of the Northern California Regional Public Safety Training Authority (Authority)'s financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2018.

The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. To provide a complete understanding of the Authority's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, the Authority's financial statements, and notes to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of this Authority exceeded liabilities at the close of the fiscal year (FY) 2017-18 by \$6 million (net position). \$1.8 million of this amount is unrestricted and may be used for ongoing operations and to meet other obligations. The total net position of the Authority decreased by \$125 thousand, or 2% since July 1, 2017.
- The decrease of net position in the amount of \$125 thousand was a result from a decrease in Commission on Peace Officer Standards and Training (POST) Institute of Criminal Investigation (ICI) contract of approximately \$126 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's financial statements are comprised of MD&A and Basic Financial Statements. The Financial Statements include the notes to the financial statements that provide additional information that is essential to a full understanding of data provided in the Authority's financial statements. The notes are included immediately following the financial statements within this report.

BASIC FINANCIAL STATEMENTS

The Financial Statements of the Authority report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles, which are generally accepted in the United States of America.

The Statement of Net Position includes information on the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations with the Authority's creditors (liabilities). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position identifies the Authority's total revenues and expenses and the resulting effect on net position. Revenues and expenses are

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Management's Discussion and Analysis
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reported in this statement for some items that will result in cash flows in future fiscal periods, such as increased attendance in Authority-sponsored classes.

The Statement of Cash Flows presents information about cash receipts and cash payments of the Authority during the year. When used with related disclosures and information in the other financial statements, the information provided in these statements should help financial report users assess the Authority's ability to generate future net cash flow, its ability to meet its obligations as they come due, and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on the Authority's financial position of its cash and its non-cash investing, capital and related financing transactions during the years.

FINANCIAL ANALYSIS

As of June 30, 2018, the Authority had assets of \$6.2 million, liabilities of \$149 thousand, and net position of \$6 million.

The Authority's total net position has decreased by \$125 thousand, and total assets have decreased \$73 thousand and liabilities have increased by \$52 thousand, respectively from FY 2016-17 to FY 2017-18.

A comparative analysis of the changes between assets, liabilities, and net position is presented in Table 1 on page 5.

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Management's Discussion and Analysis
As of and for the Fiscal Year Ended June 30, 2018

Table 1
Condensed Comparative Statement of Net Position
As of June 30, 2017 and 2018 (in thousands)

	<u>2017</u>	<u>2018</u>
Assets		
Cash	\$ 1,565	1,692
Receivables (net)	509	193
Prepaid Expenses	47	50
Capital Assets (net)	<u>4,129</u>	<u>4,242</u>
 Total Assets	 <u>6,250</u>	 <u>6,177</u>
Liabilities		
Accounts Payable	91	124
Unearned Revenues	<u>6</u>	<u>25</u>
 Total Liabilities	 <u>97</u>	 <u>149</u>
Net Position		
Net Investment in		
Capital Assets	4,129	4,242
Unrestricted	<u>2,024</u>	<u>1,786</u>
 Total Net Position	 <u>\$ 6,153</u>	 <u>6,028</u>

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Table 2
Condensed Comparative Statement of Revenues, Expenses, and Changes in Net Position
For Fiscal Years Ended June 30, 2017 and 2018 (in thousands):

	<u>2017</u>	<u>2018</u>
Operating Revenues		
Member Contributions	\$ 677	677
In-Kind Contributions	70	71
Charges for Services	827	634
Rental and leases	<u>130</u>	<u>146</u>
Total Revenues	1,704	1,528
Expenses	<u>1,876</u>	<u>1,678</u>
Operating Income (Loss)	<u>(172)</u>	<u>(150)</u>
Non-operating Income	7	10
Capital Contributions	<u> </u>	<u>15</u>
Increase/(Decrease) In Net Position	<u>\$ (165)</u>	<u>(125)</u>

As presented in Table 2 above, the Authority's total operating income changed from an operating loss of \$172 thousand in FY 2016-17 to an operating loss of \$150 thousand in FY 2017-18.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The Authority's fund statements provide information on inflows and outflows and balances of spendable resources. The Authority uses only one fund, an enterprise fund, a proprietary fund type, to account for all financial resources.

BUDGETARY HIGHLIGHTS

The Board of Directors oversees the dedicated fiscal resources of the Authority when approving the member agencies' annual budgets, usually listed under Training. As required by the Authority's Joint Powers Agreement, the Authority's annual budget is forwarded to each of the member agencies for final approval prior to adoption. Detail reports of budget-to-actual comparisons are provided to the Authority's Board of Directors at the Board's regular monthly meetings.

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The Authority prepared annual operating budgets based on the following assumptions:

- ◆ The continued operational cost of the main campus including Building 684, 685, 686, and the modular classrooms
- ◆ The shooting range

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

By the end of the FY 2017-18, the Authority had invested \$7.1 million in a broad range of capital assets, including a modular training facility, a locker/shower facility, shooting ranges, certain leasehold improvements, and equipment.

Table 3
Condensed Comparative Statement of Capital Assets (Net of Depreciation)
For Fiscal Years Ended June 30, 2017 and 2018 (in thousands)

	<u>2017</u>	<u>2018</u>
Depreciable:		
Buildings	\$ 1,680	1,636
Leased Improvement	2,352	2,501
Equipment	<u>97</u>	<u>105</u>
Totals	<u>\$ 4,129</u>	<u>4,242</u>

Long-term Debt

From FY 2016-17 to FY 2017-18, the Authority did not have any long-term debt outstanding.

FACTORS BEARING ON THE AUTHORITY'S FUTURE/ECONOMIC STATUS

The Authority's primary funding sources for ongoing operations are contributions made by the member agencies and facility use fees.

The State of California's economic condition has improved greatly over the past couple years and the member agencies budgets have strengthened. Locally, the public safety sector is booming, hiring personnel and filling the academies with a record number of employees.

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Management's Discussion and Analysis
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ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Authority's customers and other interested parties with an overview of the Authority's financial operations and financial condition. Should the reader have questions regarding information included in this report, or wish to request additional financial information, please contact the Executive Director, Northern California Regional Public Safety Training Authority at 2409 Dean Street, Room 119 (Bldg 686), McClellan, CA 95652.

NORTHERN CALIFORNIA REGIONAL PUBLIC SAFETY TRAINING AUTHORITY
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

Assets:	
Current assets:	
Cash and investments	\$ 1,691,972
Accounts receivable net of allowance for uncollectibles	193,350
Prepaid expenses	50,036
Total current assets	1,935,358
Capital assets:	
Facilities and equipment, net of depreciation	4,242,343
Total assets	6,177,701
Liabilities and Net position	
Liabilities:	
Current liabilities:	
Accounts payable and accrued expenses	123,643
Unearned Revenue	25,430
Total current liabilities	149,073
Total liabilities	149,073
Net position:	
Net Investment in capital assets	4,242,343
Unrestricted	1,786,285
Total net position	\$ 6,028,628

The notes to the basic financial statements are an integral part of this statement.

NORTHERN CALIFORNIA REGIONAL PUBLIC SAFETY TRAINING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Operating revenues:	
Member contributions	\$ 677,180
In-Kind contributions	70,929
Contributions	7
Charges for services	633,768
Rental and leases	145,687
Total revenues	1,527,571
Operating expenses:	
Salaries and benefits	410,503
Supplies and materials	93,165
Other operating and services	877,807
Depreciation	296,530
Total expenses	1,678,005
Operating income (Loss)	(150,434)
Non-operating revenues	
Interest income	9,835
Total non-operating income	9,835
Income (loss) before capital contributions	(140,599)
Capital Contributions	15,678
Changes in net position	(124,921)
Net position, beginning	6,153,549
Net position, ending	\$ 6,028,628

The notes to the basic financial statements are an integral part of this statement.

NORTHERN CALIFORNIA REGIONAL PUBLIC SAFETY TRAINING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:	
Receipts from member agencies	\$ 790,043
Receipts from rental activities	153,778
Receipts from other operating activities	848,156
Payments for salaries and benefits	(339,574)
Payments for supplies and materials	(93,165)
Payments for other operating expenses and services	(848,268)
Net cash provided by (used for) operating activities	<u>510,970</u>
Cash flows from capital and related financing activities:	
Capital contributions	15,678
Acquisition and construction of capital assets	(409,587)
Net cash provided by (used for) capital and related financing activities	<u>(393,909)</u>
Cash flows from investing activities:	
Interest received	9,835
Net cash provided by investing activities	<u>9,835</u>
Net Increase in cash and cash equivalents	126,896
Cash and cash equivalents, beginning	<u>1,565,076</u>
Cash and cash equivalents, ending	<u>\$ 1,691,972</u>
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating Income (Loss)	\$ (150,434)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	296,530
Decrease (increase) in:	
Accounts receivable	315,930
Prepaid expenses	(2,595)
Increase (decrease) in:	
Accounts payable	32,134
Deferred revenues	19,405
Total adjustments	<u>661,404</u>
Net cash provided by (used for) operating activities	<u>\$ 510,970</u>

The notes to the basic financial statements are an integral part of this statement.

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Northern California Regional Public Safety Training Authority (Authority) have been prepared in conformity with the U.S. Generally Accepted Accounting Principles (GAAP) as applied to government units. 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 Authority's accounting policies are described below.

Organization

The Authority was established through a Joint Powers Authority Agreement (JPA Agreement) pursuant to the Joint Exercise of Power Act, Government Code section 6500 et seq. on September 27, 2001. The purposes of the establishment of the Authority are to develop, build, operate, and maintain a regional public safety training college that use consolidated budgeted training dollars available to the member agencies to reduce the duplication of training efforts, provide an effective loss control measure for the member agencies by providing additional comprehensive training opportunities to safety personnel and students, and focus on developing and implementing a public safety officer education and training program of the highest order to protect life and property and enhance the quality of life.

Membership

The Authority's original members were Sacramento County Sheriff's Department (Sheriff), City of Sacramento Police Department, California Regional Fire and Rescue Training Authority (CRFRTA), and Los Rios Community College District. The Authority's current members are City of Sacramento Police Department, City of Sacramento Fire Department, and Los Rios Community College District.

Withdrawal - Any member agency may withdraw at the end of any fiscal year upon no less than one year written notice to the Authority and each of other member agencies. The Authority shall transfer to the withdrawing member agency all property and assets contributed to the Authority by the member agency and property and assets acquired by the Authority with financial contribution of the withdrawing member agency prior to the effective date of the withdrawal; provided, however, that when any part of the contribution of the withdrawing member agency has been commingled with the contribution(s) of any other member agency or member agencies for the purpose of acquiring an asset from which the proportionate share of withdrawing member agency is not readily extricable without causing financial hardship to the Authority or injury to the asset or its functionality, there shall be no transfer to the withdrawing member agency in consideration of the contribution of that member agency to the acquisition of that asset.

Withdrawal by all but one of the member agencies constitutes termination of the Authority as of the end of the then current fiscal year.

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PUBLIC SAFETY TRAINING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Scope of Reporting Entity

The Authority's reporting entity includes all activities as they related to the Authority. This includes financial activities relating to all of the membership years.

The Authority has developed criteria to determine whether other entities with activities that benefit the Authority should be included within its financial reporting entity. The criteria include, but are not limited to, whether the entity exercises oversight responsibility, scope of public services, and special financial relationships.

The Authority has determined that no other outside entities meets the above criteria, and therefore, no agency has been included as a component unit in these financial statements. In addition, the Authority is not aware of any entity that would exercise such oversight responsibility that would result in the Authority being considered a component unit of that entity.

In determining its reporting entity, the Authority considered all governmental units that were members since inception. The criteria did not require the inclusion of these entities in the financial statements principally because the Authority does not exercise oversight responsibility over any members.

Measurement Focus and Basis of Accounting

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's operation. The principal operating revenues are annual membership contributions, grant revenues, charges for training classes, and rental revenues. The principal operating expenses are services and supplies for operating training facilities. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from non-exchange transactions or ancillary activities.

Accounts and Records

The Authority's administration office processed the Authority's financial transactions and maintained copies of source documents. Revenues are deposited and claims and expenditures are paid through the Authority's commercial bank accounts.

Budgetary Principles

As required by the JPA Agreement, the Authority prepares and legally adopts final operating budgets prior to the commencement of each fiscal year. Significant budget amendments, appropriation transfers between objects and transfers from contingencies must be approved by the Authority.

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Cash and Investments

Cash and investments are deposited in the Authority's commercial bank accounts and a security investment account.

For the purpose of the statement of cash flows, the Authority considers all short-term highly liquid investments with original maturity of three months or less to be cash and cash equivalents.

Deposits and Investment Risk Disclosures - In accordance with GASB Statement No. 40, Deposit and Investment Disclosures (Amendment of GASB No. 3), certain disclosure requirements, if applicable, for Deposits and Investment Risks are specified in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including the use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and others.

Capital Assets

Capital assets, which include buildings, leasehold improvements, and equipment, are defined as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay expenses are recorded as assets in the financial statements to the extent the Authority's capitalization threshold is met. Amortization of assets acquired under capital lease is included in depreciation and amortization. Structures and improvements, and equipment are depreciated using the straight-line method over the estimated used lives below:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Leasehold Improvements	10-25
Equipment	2-20

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Payroll and other personnel costs

The Authority has four different types of personnel to carry out its operation.

Personnel with personal service agreements

The Authority recognizes personnel with personal service agreements as contractors rather than regular employees. Accordingly, the Authority only compensates these personnel based on contracted fees from the personal service agreements, but does not provide any employee benefits such as vacation and sick leave, insurances, and payroll taxes to these personnel. These personnel are responsible for their own payroll taxes as self-employed contractors and have performed administration and other functions for the Authority. However, the Authority's executive director has a personal service agreement and the Authority compensates the executive director's payroll taxes and workers compensation insurance.

Personnel from member agencies

Personnel from member agencies are permanent employees of the member agencies and have received their wages and benefits directly from the member agencies. These personnel have performed management, administration, and other functions for the Authority and include the Authority's business services manager. The Authority reimbursed a member agency for the business services manager's wages and benefits from July 2017 to June 2018 based on written agreements.

Full time employees

Full-time employees are considered as permanent employees by the Authority. The Authority provides wages and statutory federal and state payroll taxes for these personnel. The Authority does not provide health insurance benefits. The Authority provided ten paid annual holidays and additional six paid days off to be used for vacation, sick, or personal reasons, each fiscal year for those personnel who worked 32 hours or more per week. The facilities manager is the only full time employee.

Part-time employees

Part-time employees are not considered as permanent employees by the Authority. The Authority provides wages and statutory federal and state payroll taxes for these personnel and 24 hours to be used for sick, but does not provide other benefits such as vacation leave and health insurances. These personnel are part-time training class instructors, fiscal staff, or performing other functions for the Authority.

Compensated Absences

As described in the above, regular, full-time employees are granted six paid days off each fiscal year. The employees are allowed to carry forward unused paid day off balances to next fiscal year. The Authority determines that the unused paid day off balances as of June 30, 2018 is immaterial to the financial statements. Accordingly, the Authority did not include these unused paid day off balances as a liability in the financial statements.

Retirement Plan, and Other Post Employment Benefits (OPEB)

The Authority does not provide a retirement plan nor OPEB benefits to its personnel.

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Revenues/Contributions from Member Agencies

One of the major sources of revenues for the Authority is contributions from member agencies. Each member agency is required to pay annual contributions to the Authority. The annual contributions are based on anticipated annual costs incurred by the Authority and have to be approved by each member agency as part of the Authority's annual budgets. After the Authority adopts its annual budget, the Authority sends invoices to each member agency to collect the contributions. In addition to annual contributions, member agencies have been providing several voluntarily cash and in-kind contributions to the Authority since the Authority was created.

Net Position

In the financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debts that are attributable to the acquisition, construction, or improvement of these assets reduced the balance in this category.

Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This category presents net position, not restricted for any project or other purpose.

The Authority did not have restricted net positions as of June 30, 2018.

Use of Restricted/Unrestricted Net Position

When restricted position become available, for their restricted purposes, they are used first, and then unrestricted position are used as they are needed.

Management Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported amounts of assets and liabilities at the reporting dates and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Authority's income is exempt from federal income taxes under Internal Revenue Service section 115, which excludes income derived from the exercise of any essential governmental function and accruing to a state political subdivision.

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 2 - CASH AND INVESTMENTS

Cash and investments maintained at June 30 were as follows:

Cash in Bank	\$ 1,169,004
Securities Investment Account	<u>522,968</u>
Total	<u>\$ 1,691,972</u>

The Authority adopted its formal investment policy on April 1, 2011.

All Cash in bank was held by the Bank of the West. The cash in bank was insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The deposits exceeded the insured limit was covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 100% of the excess government funds on deposit. This collateral must be in the form of government-backed securities.

The securities investment account included only cash and fixed rate certificates of deposits were managed by UBS Financial Services, Inc.. All cash and certificates of deposits in the securities investment account were insured by the FDIC up to \$250,000 per depository institution. The portfolio of the securities investment account at June 30, 2018 was as follows:

Cash:		
UBS Bank US	\$ 9,968	
Certificates of Deposits:		
		<u>Maturity Date</u>
Capital One Bank USA, NA	50,000	October 29, 2018
Discover Bank US	30,000	December 21, 2018
GE Capital Retail US	20,000	January 31, 2019
Barclays Bank US	21,000	August 13, 2019
American Express US	50,000	October 28, 2019
Capital One, NA	30,000	December 30, 2019
Goldman Sachs Bank US	21,000	August 12, 2020
American Express US	50,000	October 28, 2020
Capital One, NA	30,000	December 29, 2020
Capital One Bank USA, NA	22,000	August 3, 2021
Capital One, NA	51,000	October 26, 2021
Capital One, NA	30,000	December 29, 2021
Goldman Sachs Bank US	22,000	August 2, 2022
Capital One Bank USA, NA	55,000	November 1, 2022
Sallie Mae Bank US	<u>31,000</u>	December 20, 2022
Total	<u>\$ 522,968</u>	

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
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FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30 consist of the following:

Rent and Operating	<u>\$ 193,350</u>
Total	<u>\$ 193,350</u>

The Authority's receivable balance is from rent and operating receivables.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2018, is as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets, being depreciated:				
Building	\$ 2,186,083			2,186,083
Leasehold improvement	4,294,685	378,230		4,672,915
Equipment	<u>246,260</u>	<u>31,357</u>		<u>277,617</u>
Total capital assets, being				
Depreciated	<u>6,727,028</u>	<u>409,587</u>		<u>7,136,615</u>
Less accumulated depreciation for:				
Buildings	505,515	44,494		550,009
Leasehold Improvements	1,942,902	228,580		2,171,482
Equipment	<u>149,325</u>	<u>23,456</u>		<u>172,781</u>
Total accumulated depreciation	<u>2,597,742</u>	<u>296,530</u>		<u>2,894,272</u>
Total	<u>\$ 4,129,286</u>	<u>113,057</u>		<u>4,242,343</u>

NOTE 5 - LEASES

Operating Leases

Ground Lease

On June 22, 2004, the Authority entered a ground lease agreement with the County for certain real property at McClellan Park (formerly known as McClellan Air Force Base). The leased premises include Buildings 603, 683, 684, 685, 686, 710, 712, and the Firing Range at McClellan Park. The Authority is required to use the leased premises solely for the purpose of offering public safety training and education programs necessary for the operation of a regional public safety training facility. The

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

term of the ground lease agreement is for the term remaining in the Economic Development Conveyance Lease in Furtherance of Conveyance between the County as lessee and the United States Air Force as lessor, dated August 13, 1998. The Authority is required to pay the County one dollar (\$1) each year as annual rent during the term of the ground lease. The Authority is responsible for all expenses associated with maintaining and operating the leased premises during the term of the lease.

NOTE 6 - RELATED PARTY TRANSACTIONS

Member Agencies - Voluntary Contributions

Since the Authority was established, the member agencies have been providing various voluntary cash and in-kind contributions for the Authority. These contributions included cash contributions, service provided, and on-behalf payments for certain personnel costs of the Authority. The Authority has not had any agreements with the member agencies regarding these voluntary contributions and has not tracked and determined the amounts of contributions of service provided and on-behalf payments from member agencies prior to FY 2009-10.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Government Allowances, Awards and Grants

The Authority has received government funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the Authority may incur a liability to those grantor agencies.

Member Agencies

As described at Note 6, the Authority has received several contributions from member agencies since it was established. Although there are no written agreements between the Authority and the member agencies about terms of the contributions prior to FY 2009-10, the Authority does not consider having obligations to repay the member agencies for any contributions received. However, if the member agencies request the Authority to repay them for all or part of the contribution, the Authority may incur liabilities to the current or past member agencies.



County of Sacramento

March 14, 2019

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Northern California Regional Public Safety Training Authority
2409 Dean Street, Room 119 (Bldg 686)
McClellan, CA 95652

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northern California Regional Public Safety Training Authority (Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Finding Numbers 1 through 3 of the accompanying schedule of current audit findings that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to Finding

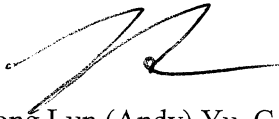
The Authority's responses to the findings identified in our audit are described in the accompanying schedule of current audit findings. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

BEN LAMERA
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.
Audit Manager

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
SCHEDULE OF CURRENT AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

1. CAPITAL ASSETS

During our review of the Northern California Regional Public Safety Training Authority's (Authority) capital assets, we noted that several capital assets were replaced or not utilized. These replaced or non-utilized capital assets remained on the Authority's general ledger. These capital assets were fully depreciated with a zero net book value and will not affect the net book value that is presented on the financial statements. By not removing the replaced or non-utilized capital assets, the Authority was not in accordance with its Fixed Asset Policy.

We further noted that the prior year's adjusting journal entry was not posted correctly in the Authority's accounting system. As such, the beginning net position was not correct, but has been subsequently corrected on the financial statements.

We also noted that the Authority was not following its Fixed Asset Policy for depreciating assets. The Authority was depreciating assets in service in the initial year for the full 12 months instead of the number of months it was placed in service. As such, the depreciation expense was overstated by \$10,221 and has been subsequently corrected on the financial statements.

Recommendation

We recommend the Authority review its capital assets listing and determine which assets were replaced and not utilized and remove them from its general ledger per the Authority's Fixed Asset Policy. We further recommend the Authority comply with its Fixed Asset Policy when depreciating its capital assets in its accounting system. We also recommend the Authority post the prior year's adjusting journal entry correctly to ensure the beginning net position agrees with the audited amount.

Management's Response

The Authority will amend the Fixed Asset Policy to incorporate those assets that only have 5 year useful life. The Authority will also remove those assets that have been replaced or non-utilized from the general ledger. The Authority will adjust the prior year's journal entries to ensure the beginning net position matches the audited amount.

2. ACCOUNTS RECEIVABLE

During our review of the Authority's internal control, we noted that one individual was preparing invoices, receiving and logging payments, and entering payments in the Authority's accounting system, CYMA, as of April 30, 2018. By not having proper separation of duties from May 1, 2018 to June 30, 2018, theft or misappropriation of assets could occur without management's knowledge.

We further noted that there was a prior year accounts receivable credit balance of \$8,258 since fiscal year 2013-14. Since this accounts receivable credit balance was outstanding for

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
SCHEDULE OF CURRENT AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

over four years and should have been zero, the other accounts receivable accounts and related revenues may be incorrect.

Recommendation

We recommend the Authority implement proper separation of duties by having a different individual receive and log payments that do not have access to prepare invoices and enter payments in CYMA. We further recommend the Authority to research the \$8,258 accounts receivable credit balance and reclassify the credit balance to the proper accounts.

Management's Response

The Authority has already implemented a separation of duties to cover the receiving and logging and the entering of those payments into the Authority's accounting system. This separation of duties will limit the potential risk of theft or misappropriation of assets. Additionally, the Authority will reclassify the outstanding credit balance that was inadvertently carried over from a previous year.

3. PREPAID EXPENSES

During our review of the Authority's prepaid expenses, we noted that four out of 33 transactions selected for testing were incorrectly included in prepaid expenses. These four transactions with a total of \$4,982 were paid in fiscal year 2018-19 and not in fiscal year 2017-18 to be used in fiscal year 2018-19 or subsequent years. As such, these transactions should not be classified as prepaid expenses in the financial statements and have been subsequently reclassified to other proper accounts in the financial statements.

Recommendation

We recommend the Authority review the standards for prepaid expenses and classify its expenses accordingly.

Management's Response

The Authority erred in classifying a few prepaid expenses to the wrong fiscal year. This error has been corrected and subsequently, the prepaid expenses have been reclassified to the correct year. The Authority will be more diligent in determining the correct fiscal year for any prepaid expenses.

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
STATUS OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**STATUS OF PRIOR YEAR FINDINGS REPORTED IN AUDIT REPORT FOR THE
FISCAL YEAR ENDED JUNE 30, 2017 DATED DECEMBER 11, 2017**

Prior Audit Findings

1. CHECK PAYMENT PROCEDURES

During our review of internal controls of the Northern California Regional Public Safety Training Authority's (Authority), we noted that the accounts payable clerk processes all payments and the signed checks were returned to the accounts payable clerk to mail. The accounts payable clerk was able to record transactions in the Authority's accounting system. As the accounts payable clerk was able to process and mail payments, and record transactions in the accounting system, theft or misappropriation of the signed checks could occur.

Recommendation

We recommend the Authority to update and implement procedures for its signed check to include someone without access to process payments to be in custody of the signed checks.

Management's Response

The Authority has already implemented a procedure for signed checks. Once the checks are signed by the Executive Director they are returned to the Business Services Manager for processing thus eliminating the final processing from the accounts payable clerk.

Current Status

It appears that our recommendation has been implemented.

2. PURCHASING

Per the Authority's Purchasing and Contracting Policy, "...Where the cost of personal property or services exceeds five thousand dollars (\$5,000) but less than fifty thousand dollars (\$50,000), the Executive Director shall follow the informal bidding procedures...a minimum of three written or verbal quotation or proposals relative to the personal property or services to be acquired...". During our test of capital outlay expenses, we selected 13 capital outlay expenses, 11 of which required an informal bidding process. Out of the 11 capital outlay expenses, we noted the Authority did not obtain the required informal bids for a purchase in the amount of \$6,500. As such, the Authority did not comply with its own purchasing and contracting policy.

Recommendation

We recommend the Authority comply its purchasing and contracting policy and if a service or personal property is over \$5,000, a minimum of three written or verbal quotes or proposals are obtained prior to acquiring the service or personal property.

**NORTHERN CALIFORNIA REGIONAL
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STATUS OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**STATUS OF PRIOR YEAR FINDINGS REPORTED IN AUDIT REPORT FOR THE
FISCAL YEAR ENDED JUNE 30, 2017 DATED DECEMBER 11, 2017**

Management's Response

The Authority utilized a civil engineering company whom is familiar with the facility and whom has conducted several projects at the facility in the past. The Authority will amend the purchasing policy to allow for sole sourcing professional services up to \$10,000 dollars

Current Status

It appears that our recommendation has been implemented.

3. INVOICES

During our test of the Authority's accounts receivable and revenues, we noted that two invoices (invoice numbers 1734 and 1953) out of 94 invoices tested were invoiced at the wrong amounts, resulting in under reported revenues totaling \$146. However, this amount is immaterial and no adjustments were made to the financial statements.

The amounts were incorrectly billed due to removing the rates for non-Peace Officer Standards and Training (POST) reimbursable agencies at the incorrect rate. Therefore, the Institute of Criminal Investigation (ICI) invoices were not properly reviewed.

Recommendation

We recommend the Authority remove rates on its ICI invoices at the rates indicated on the Authority's ICI Course Costs for Non-POST Reimbursable Agencies rate sheet and be properly reviewed by a second individual.

Management's Response

The Authority concurs with the finding and has already established the rate for each ICI course for student's from non-reimbursable POST agencies. All invoices for non-reimbursable POST agencies are now reviewed for accuracy by the Business Services Manager prior to sending them out.

Current Status

It appears that our recommendation has been implemented.

4. CAPITAL ASSETS

During our review of the Authority's capital assets, we noted that several capital assets were replaced or not utilized. These replaced or non-utilized capital assets remained on the Authority's general ledger. These capital assets were fully depreciated with a zero net book value. By not removing the replaced or non-utilized capital assets, the Authority's capital assets are not truly and fairly presented.

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
STATUS OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**STATUS OF PRIOR YEAR FINDINGS REPORTED IN AUDIT REPORT FOR THE
FISCAL YEAR ENDED JUNE 30, 2017 DATED DECEMBER 11, 2017**

We further noted that a total amount of \$5,488 retro-fit water fountains classified as leasehold improvements had a useful life of five years. However, the Authority's Fixed Asset Policy indicates that the useful life for leasehold improvements ranges from ten to 25 years. As such, the Authority did not comply with its Fixed Asset Policy.

Recommendation

We recommend the Authority review its capital assets listing and determine which assets were replaced and not utilized and remove them from its general ledger per the Authority's Fixed Asset Policy. We further recommend the Authority comply with its Fixed Asset Policy when depreciating its capital assets in its accounting system. If the capital assets expected useful life is less than the useful life in the Authority's Fixed Asset Policy, the Authority should consider updating its policy.

Management's Response

The Business Services Manager will review the Authority's capital assets and determine which assets need to be removed from the general ledger per the Fixed Asset Policy. Additionally, the Authority will determine if the retro-fit water fountains should be reclassified with a useful life of 10 years or if the Fixed Asset Policy needs to be amended.

Current Status

It appears that our recommendation has been partially implemented. The Authority did not remove assets that were replaced or not utilized from its general ledger and did not follow its Fixed Asset Policy when depreciating its capital assets. See Finding Number 1 at Schedule of Current Audit Findings section of this report.

5. CONFLICT OF INTEREST CODE

Government Code section 87300 requires the Authority to adopt and promulgate conflict of interest codes. In addition, the Authority's conflict of interest policy requires that certain designated personnel included board members, the executive director, the administrative analyst, member agency staff, consultants, and ad hoc committee members to submit statement of economic interests (Form 700) to report any potential conflict of interest.

During our test of the Authority's Form 700s, we noted that 13 out of 15 had a pre-printed date of April 1, 2017. Since these forms were pre-printed with the date April 1, 2017, we were unable to determine if these individuals completed and signed the Form 700 by the required due date, April 3, 2017.

Recommendation

We recommend the Authority have the individuals handwrite the dates when they sign their Form 700 so the Authority is in compliance with Government Code section 87300.

**NORTHERN CALIFORNIA REGIONAL
PUBLIC SAFETY TRAINING AUTHORITY
STATUS OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**STATUS OF PRIOR YEAR FINDINGS REPORTED IN AUDIT REPORT FOR THE
FISCAL YEAR ENDED JUNE 30, 2017 DATED DECEMBER 11, 2017**

Management's Response

The Authority agrees with the recommendation and will have all individuals required to file a form 700 personally date and sign their own form 700.

Current Status

It appears that our recommendation has been implemented.