

ORANGE COUNTY FIRE AUTHORITY
Irvine, California

SINGLE AUDIT REPORT ON FEDERAL AWARDS

JUNE 30, 2014

ORANGE COUNTY FIRE AUTHORITY

Single Audit Report on Federal Awards

Year Ended June 30, 2014

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INDEPENDENT AUDITORS' 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*

To the Board of Directors
Orange County Fire Authority
Irvine, California

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 the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Orange County Fire Authority (OCFA), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise OCFA's basic financial statements, and have issued our report thereon dated October 13, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCFA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCFA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCFA's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness 2014-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCFA's financial statements are free from material misstatement, we performed tests of its 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



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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*.

Management's Response to Finding

OCFA's response to the finding identified in our audit 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lingham, LLP

Brea, California
October 13, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Orange County Fire Authority
Irvine, California

Report on Compliance for Each Major Federal Program

We have audited the Orange County Fire Authority (OCFA)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of OCFA's major federal programs for the year ended June 30, 2014. OCFA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of law, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express opinions on compliance for each of OCFA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, and *OMB A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OCFA's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of OCFA's compliance.

Opinion on Each Major Federal Program

In our opinion, OCFA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.



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Report on Internal Control over Compliance

Management of OCFA is responsible for establishing and maintaining effective internal controls over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered OCFA's internal controls over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OCFA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or, significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of OCFA, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise OCFA basic financial statements. We issued our report thereon dated October 13, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.



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The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Lance, Solt & Luyhard, LLP

Brea, California
October 13, 2014

ORANGE COUNTY FIRE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Program / Project Identification Number	Expenditures
<u>U.S. Department of Agriculture:</u>			
Passed through the California Fire Safe Council: Cooperative Forestry Assistance (CFA): 2013 CFA - Peters Canyon Fuel Reduction/Education	10.664	13SFA0017	\$ 71,695
Total U.S. Department of Agriculture			<u>71,695</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Passed through the City of Santa Ana: Housing and Urban Development CDBG (HUD): CDBG - Public Facilities Improvement	14.218	A-2013-173	17,220
Total U.S. Department of Housing and Urban Development			<u>17,220</u>
<u>U.S. Department of Homeland Security:</u>			
Direct assistance via Federal Emergency Management Agency: National Urban Search and Rescue (US&R) Response System*: 2012 Cooperative Agreement	97.025	EMW-2012-CA-K00007	301,519
2013 Cooperative Agreement	97.025	EMW-2013-CA-K00001	777,071
Subtotal			<u>1,078,590</u>
Assistance to Firefighters Grant*: 2012 - Thermal Imaging Cameras	97.044	EMW-2012-FO-06003	137,920
Subtotal			<u>137,920</u>
Passed through the City of Santa Ana: Urban Areas Security Initiative (UASI): 2011 UASI - Regional and TLO Training	97.067	DHS 2011-SS-0077	73,616
2013 UASI - Regional Training	97.067	DHS 2013-SS-00110	239
Passed through the City of Anaheim: Urban Areas Security Initiative (UASI): 2012 UASI - Regional Training	97.067	DHS 2012-SS-00123	19,985
Passed through the Orange County Sheriff's Department: Homeland Security Grant (HSG) Program: 2011 HSG - OCIAC Fire Captain and AHIMT Conference	97.067	DHS 2011-SS-0077	76,729
2012 HSG - OCIAC Fire Captain	97.067	DHS 2012-SS-00123	66,774
2011 HSG - Metropolitan Medical Response System (MMRS)	97.067	DHS 2011-SS-0077	277,336
Subtotal			<u>514,679</u>
Total U.S. Department of Homeland Security			<u>1,731,189</u>
Total Federal Expenditures			<u>\$ 1,820,104</u>

* Major Program

Note a: Refer to Note 1 to the Schedule of Expenditures of Federal Awards for a description of significant accounting policies used in preparing this schedule.

Note b: There were no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to sub-recipients during the year was \$0.

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**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the Orange County Fire Authority (OCFA), that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the OCFA from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the OCFA becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDING

2014-001 – Net Position Restatement

Material Weakness

Condition and Criteria

Certain adjustments were made by OCFA to correctly restate the beginning balances for capital assets relating to land and accumulated depreciation.

Cause

Depreciation expense was not properly calculated over a period of time. In addition, land owned by OCFA was not reflected on the government-wide statements.

Effect

The net effect of these restatements was \$804,881 and was detected by management of the OCFA. This adjustment only effects the government-wide financial statements because they are reported under the full accrual basis.

Recommendation

Due to the diverse operations of OCFA, there is a need to perform a high level analytical review of depreciation expense in comparison to OCFA capitalization policy. Such review will identify any irregularities relating to depreciation expense, which then can be investigated by OCFA in a timely manner.

Views of Responsible Officials

Land contributed to OCFA by a developer in Fiscal Year 2012/13 was not reported as a capital asset addition, because ownership and title to the land could not be sufficiently verified at year-end. Through subsequent discussions with legal counsel, it was determined that legal ownership was, in fact, obtained and in place at the time of the donation.

When OCFA acquired a new capital asset financial reporting module in Fiscal Year 2002/03, fifty-three capital assets with multiple components were entered incorrectly into the new system. As a result, depreciation expense for these assets was not properly calculated using the straight-line method during the subsequent years. OCFA does perform a high level analytical review of depreciation expense each year; however, the miscalculations for these fifty-three items remained undetected since they represent a small portion of OCFA's total depreciable capital assets (3.7% of the 1,443 items held as of June 30, 2014). Also, since the miscalculations were caused by a system conversion that occurred over ten years ago, it is unlikely that a similar error is likely to occur in the future.

Corrective Action Plan

The following corrective actions have been taken:

- The land addition was reported in OCFA's Fiscal Year 2013/14 financial statements as a prior period adjustment. OCFA staff will consult with legal counsel prior to the year-end close for any future contributions of real property.
- During Fiscal Year 2013/14, OCFA staff completed a comprehensive review of its depreciable capital assets and depreciation calculations. This review enabled staff to identify the assets that were miscalculated, as well as the root cause of the error, and report a prior period adjustment in the Fiscal Year 2013/14 financial statements. Staff will continue to perform these types of high level analytical reviews as part of the year-end closing process.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDING (cont.)

2014-001 – Net Position Restatement (cont.)

Estimated Completion Date

The correction actions have already been completed.

Contact Person

Jim Ruane, Finance Manager/Auditor

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

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**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Prior Year Internal Control over Financial Reporting Finding

2013-01: Fund Balance Restatement:

As a result of our audit procedures, we noted an item requiring a fund balance restatement in the General Fund related to hazardous materials verification fees. During fiscal year ended June 30, 2013, Orange County Fire Authority completed an internal review of its inspection records from all seventy-one (71) fire stations and the Fire Prevention Department for fiscal years June 30, 2006 through 2012. Upon completion of that review, it was determined that Orange County Fire Authority's inspection records (via paper or electronic) could not verify that the performance of such inspections were conducted for certain businesses that were billed a hazardous material verification fee.

In June 2013, Orange County Fire Authority's Board of Directors authorized refunds to those businesses, underlining the accounting position that revenues from hazardous material verification fees were unearned and overstated in the prior before-mentioned fiscal years. As a result, Orange County Fire Authority restated its beginning fund balances and net position to establish an accrued liability for \$1,751,044, which is the total estimated amount of potential refunds due to hazardous materials service businesses and authorized for refund by the Board of Directors.

Management's Response:

We concur with this finding, and a fund balance restatement in the amount of \$1,751,044 has been recorded in OCFA's General Fund and Governmental Activities for Fiscal Year 2012/13. The following corrective actions have been taken:

- Prior to Fiscal Year 2012/13, the hazardous materials verification fees were billed to customers by the Orange County Health Care Agency (HCA), on behalf of OCFA, at the beginning of each fiscal year before the inspections were completed. Beginning in Fiscal Year 2012/13, those fees were billed in arrears and were based on actual inspections completed by OCFA personnel during the year.
- In February 2013, OCFA's Board of Directors approved the transition of the California Accidental Release Plans (CalARP) program and the Hazardous Materials Disclosure (HMD) program to the HCA, effective July 1, 2013. OCFA will continue to provide first responders with hazardous materials information from its ongoing inspection program and will continue to have access to information collected by HCA; however, OCFA will no longer recognize revenues associated with these discontinued programs beginning in Fiscal Year 2013/14.
- OCFA contracts with Lance, Soll & Lunghard, LLP, (LSL) a firm of certified public accountants, to conduct periodic reviews of its processes and internal controls. In March 2013, OCFA's Budget and Finance Committee approved a review of the billing and revenue recognition for all Fire Prevention fees. That report was finalized in July 2013, and included recommendations to implement various changes to OCFA's workflows and business practices. In August 2013, OCFA hired a Finance Manager to help implement the proposed recommended actions in the Fire Prevention Department.

Status: OCFA has properly corrected this issue.