

ORANGE COUNTY FIRE AUTHORITY
Irvine, California

SINGLE AUDIT REPORT ON FEDERAL AWARDS

JUNE 30, 2013

ORANGE COUNTY FIRE AUTHORITY
Irvine, California

SINGLE AUDIT REPORT ON FEDERAL AWARDS

Year Ended June 30, 2013

ORANGE COUNTY FIRE AUTHORITY

Single Audit Report on Federal Awards

Year Ended June 30, 2013

TABLE OF CONTENTS

	<u>Page Number</u>
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 <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance; And Report on Schedule of Expenditures of Federal Awards required by OMB Circular A-133	3
Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2013.....	5
Notes to the Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs for the Fiscal Year Ended June 30, 2013.....	7
Schedule of Prior Year Findings and Questioned Costs for the Fiscal Year Ended June 30, 2012.....	9

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 (the OCFA) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the OCFA's basic financial statements and have issued our report thereon dated October 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the OCFA's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and significant deficiencies.

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. We consider the deficiency, 2013-01, described in the accompanying schedule of findings and questioned costs to be a material weakness.

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 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*.



To the Board of Directors
Orange County Fire Authority
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OCFA's Response to Findings

OCFA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. OCFA 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 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, Loll & Lughard, LLP

Brea, California
October 9, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON 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, 2013. 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 for the Financial Statements

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 material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of OCFA is responsible for establishing and maintain effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our



To the Board of Directors
Orange County Fire Authority
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audit of compliance, we considered the OCFA's internal control 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 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 OCFA's as of and for the year ended June 30, 2013, and have issued our report thereon dated October 9, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Lance, Soll & Luyhard, LLP

Brea, California
October 9, 2013

ORANGE COUNTY FIRE AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Program / Project Identification Number</u>	<u>Expenditures</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:			
2011 Cooperative Agreement	97.025	EMW-2011-CA-00065	\$ 224,025
2012 Cooperative Agreement	97.025	EMW-2012-CA-K00007	959,589
Subtotal			<u>1,183,614</u>
Assistance to Firefighters Grant*:			
2010 - Smoke Alarms	97.044	EMW-2010-FP-01751	19,433
2011 - Self Contained Breathing Apparatus	97.044	EMW-2011-FO-03278	1,393,854
Subtotal			<u>1,413,287</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	111,583
Passed through the City of Anaheim:			
Urban Areas Security Initiative (UASI)*:			
2010 UASI - TLO Training	97.067	DHS 2010-GPD-0067	54,850
Passed through the Orange County Sheriff's Department:			
Homeland Security Grant (HSG) Program*:			
2010 HSGP - TLO Program	97.067	DHS-2010-0085	44,813
2011 HSGP - TLO Program	97.067	DHS 2011-SS-0077	90,186
2010 HSGP - Command Vehicles	97.067	DHS-2010-0085	813,940
2010 HSGP - Metropolitan Medical Response System (MMRS)	97.067	DHS-2010-0085	101,156
2010 HSGP - Hot Sticks	97.067	DHS-2010-0085	27,577
Subtotal			<u>1,244,105</u>
Total U.S. Department of Homeland Security			<u>3,841,006</u>
Total Federal Expenditures			<u>\$ 3,841,006</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 subrecipients during the year was \$0.

ORANGE COUNTY FIRE AUTHORITY

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

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, 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 City 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 City 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.

ORANGE COUNTY FIRE AUTHORITY

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

SECTION II - FINANCIAL STATEMENT FINDINGS

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.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

ORANGE COUNTY FIRE AUTHORITY

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.