

ORANGE COUNTY FIRE AUTHORITY

SINGLE AUDIT REPORT

JUNE 30, 2015

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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 Federal Program; Report 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, 2015..... | 6 |
| Notes to the Schedule of Expenditures of Federal Awards | 7 |
| Schedule of Findings and Questioned Costs for the Fiscal Year Ended June 30, 2015..... | 8 |
| Schedule of Prior Year Findings and Questioned Costs for the Fiscal Year Ended June 30, 2014..... | 10 |

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, 2015, and the related notes to the financial statements, which collectively comprise OCFA's basic financial statements, and have issued our report thereon dated October 7, 2015.

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.

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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Finding

OCFA's response to prior year's finding 2014-001 presented in the Schedule of Prior Year Findings and Questioned Costs 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 7, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT 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 Compliance Supplement* that could have a direct and material effect on each of OCFA's major federal programs for the year ended June 30, 2015. 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 laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular 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 to 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 a 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, 2015.



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

Report on Internal Control over Compliance

Management of OCFA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered 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 control 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that 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 report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular 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 the Orange County Fire Authority, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise OCFA's basic financial statements. We issued our report thereon dated October 7, 2015, which contained an unmodified opinion 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 the 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.



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

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 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Lance, Solt & Lughard, LLP

Brea, California
October 7, 2015

ORANGE COUNTY FIRE AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Grant Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|---------------------|-----------------------------------|
| <u>U.S. Department of Agriculture</u> | | | |
| Passed through the California Fire Safe Council Cooperative Forestry Assistance 2013 CFA - Peters Canyon Fuel Reduction/Education | 10.664 | 13SFA0017 | \$ 13,569 |
| Total U.S. Department of Agriculture | | | <u>13,569</u> |
| <u>U.S. Department of Housing and Urban Development</u> | | | |
| Passed through the City of Santa Ana Community Development Block Grants/Entitlement Grants CDBG - Public Facilities Improvement * | 14.218 | A-2013-173 | 826,075 |
| Total U.S. Department of Housing and Urban Development | | | <u>826,075</u> |
| <u>U.S. Department of Homeland Security</u> | | | |
| Direct Programs via the Federal Emergency Management Agency National Urban Search and Rescue Response System 2013 Cooperative Agreement * | 97.025 | EMW-2013-CA-K00001 | 467,583 |
| 2014 Cooperative Agreement * | 97.025 | EMW-2014-CA-K00032 | 656,652 |
| Subtotal National Urban Search and Rescue Response System | | | <u>1,124,235</u> |
| Passed through the City of Santa Ana Homeland Security Grant Program 2013 Urban Area Security Initiative - Regional Training | 97.067 | DHS 2013-SS-00110 | 3,849 |
| Passed through the City of Anaheim Homeland Security Grant Program 2014 Urban Area Security Initiative - Regional Training | 97.067 | DHS 2014-SS-00093 | 4,935 |
| Passed through the County of Orange, Sheriff's Department Homeland Security Grant Program 2012 Orange County Intelligence Assessment Center | 97.067 | DHS 2012-SS-00123 | 5,172 |
| 2013 Orange County Intelligence Assessment Center | 97.067 | DHS 2013-SS-00110 | 98,822 |
| 2013 Gas Monitors | 97.067 | DHS 2013-SS-00110 | 11,177 |
| 2014 Orange County Intelligence Assessment Center | 97.067 | DHS 2014-SS-00093 | 17,032 |
| Subtotal Homeland Security Grant Program | | | <u>140,987</u> |
| Total U.S. Department of Homeland Security | | | <u>1,265,222</u> |
| Total Federal Expenditures | | | <u><u>\$ 2,104,866</u></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 was 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.

ORANGE COUNTY FIRE AUTHORITY

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

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 (the 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 Authority 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 Authority 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, 2015**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ___yes Xno
- Material weaknesses identified? ___yes Xnone reported

Noncompliance material to financial statements noted? ___yes Xno

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ___yes Xno
- Material weaknesses identified? ___yes Xnone reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ___yes Xno

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 14.218 97.025 | Community Development Block Grants/Entitlement Grants National Urban Search and Rescue Response System |

Dollar threshold used to distinguish between type A and type B program \$300,000

Auditee qualified as low-risk auditee? ___yes Xno

ORANGE COUNTY FIRE AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

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, 2014

SECTION IV - FINANCIAL STATEMENT FINDINGS

2014-001: Net Position Restatement

Material Weakness

Condition and Criteria

Certain adjustments were made by the Authority 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 the Authority 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 Authority. 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 the Authority, there is a need to perform a high level analytical review of depreciation expense in comparison to the Authority's capitalization policy. Such review will identify any irregularities relating to depreciation expense, which then can be investigated by the Authority in a timely manner.

Views of Responsible Officials

Land contributed to the Authority 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 the Authority 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. The Authority 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 the Authority'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 the Authority's Fiscal Year 2013/14 financial statements as a prior period adjustment. The Authority's staff will consult with legal counsel prior to the year-end close for any future contributions of real property.
- During Fiscal Year 2013/14, the Authority's 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.

ORANGE COUNTY FIRE AUTHORITY

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

SECTION IV - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2014-001: Net Position Restatement (Continued)

Estimated Completion Date

The corrective actions have been completed.

Contact Person

Jim Ruane, Finance Manager/Auditor

SECTION V - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.