

SAN MIGUEL CONSOLIDATED FIRE PROTECTION DISTRICT

Review Report

ADMINISTRATIVE AND INTERNAL ACCOUNTING CONTROLS

July 1, 2010, through June 30, 2012



JOHN CHIANG
California State Controller

December 2014



JOHN CHIANG
California State Controller

December 29, 2014

Dave Rickards, Board President
San Miguel Consolidated Fire Protection District
2850 Via Orange Way
Spring Valley, CA 91978

Dear Mr. Rickards:

Enclosed is the draft report of the State Controller's Office (SCO) review of the San Miguel Consolidated Fire Protection District's (District) administrative and internal accounting controls. The review was conducted to assess the adequacy of the District's controls to safeguard public assets and to ensure proper use of public funds.

Our review did not identify any significant deficiencies with the District's administrative and internal accounting controls. Our review was limited to reviewing and assessing the following:

- Compliance with Government Code section 12464(a)
- Internal control components and elements
- Tests of selected transactions

Based on our review and assessment of the above, nothing came to our attention to warrant further tests of transactions relating to the District's administrative and internal accounting controls.

As part of our review, we made an assessment of various aspects of the District's internal control components and elements based on guidelines established by the General Accounting Office's Internal Control Management and Evaluation tool.

Of the 79 control elements evaluated pertaining to internal control components, we found:

- 64 control elements to be adequate;
- 14 control elements were not applicable due to the District's small size. In these instances, compensating controls are in place to address these areas; and
- One control element to be deficient.

The results of our review and evaluation of the elements of internal control are included in this report as an Appendix. Our assessments of the elements were based on the conditions that existed during our review period of fiscal (FY) 2010-11 and FY 2011-12. To the extent feasible, we made inquiries to assess whether the control deficiencies have been addressed since the conclusion of FY 2011-12.

The District raised three issues in its response (Attachment) to the draft review report. Our comments to two of the issues are addressed below and the third issue regarding the strategic plan is included in the Findings and Recommendations section of the report.

The District's two issues are:

1. Inaccurate Information in April 17, 2014 Letter

The statements with inaccurate information were:

- “The District had a deficit unrestricted fund balance of \$2,212,865, an increase of \$847,311 from FY 2010-11.”

This statement is not accurate. *While the District's audit does show a deficit in the Unrestricted Fund Balance you neglect to mention that audit also shows the District with a positive Restricted Fund balance making the net fund balance a positive \$1,025,070.*

- “The District expenditures exceeded revenues by \$557,668.”

This statement is not accurate. *The audit shows the District actually had Revenue and expenditures in FY 2011-12 in the amount of \$688,868.*

Therefore, the District respectfully requests that the report be revised to include a footnote in the report that corrects this information.

SCO's Comments

The statements in question are factually correct. The amounts were included in the District's Independent Auditor's Audit Report for the fiscal year ended June 30, 2012. The Statement of Net Position (page 9) discloses the Unrestricted (deficit) of \$2,212,865. The Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (page 15) discloses a Change in Net Position of Governmental Activities of \$557,668, which in effect reflects that expenditures exceeded the revenues.

2. Cost of Investigation

The District's position is that it should not bear the costs of this review because there is nothing in the report that the District's reports were “false, incomplete, or incorrect” or not made in the “time, form, or manner required.” The District believes that the investigation was based on faulty assumptions that could have easily been resolved with a simple phone call. Therefore, it is the District's position that charging the District for the cost of the investigation would not only be unfair to the taxpayers, it would violate the provisions of Government Code 12464.

SCO's Comments

The review was initiated because we had reason to believe that the FTRs were misstated, incomplete, or incorrect. Our reasons for such belief are listed on page 1 of the review report and are based solely on our review and analysis of the FTRs submitted to the SCO and the District's independent auditor's reports. During our review, we determined that the District-submitted FTRs were prepared using the preliminary pre-closing financial records. These preliminary amounts were subsequently adjusted by the District in its financial records; however, the FTRs were not amended and were not submitted to the SCO. Pursuant to Government Code section 12464, we will bill the District for the costs of the review and for preparing this review report.

If you have any questions, please contact Mike Spalj, Chief, Local Government Audits Bureau at (916) 324-6984.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: Rick Augustine, Board Member
 San Miguel Consolidated Fire Protection District
Karrie Johnston, Board Member
 San Miguel Consolidated Fire Protection District
William A. Kiel, Board Member
 San Miguel Consolidated Fire Protection District
Dan McMillan, Board Member
 San Miguel Consolidated Fire Protection District
Jeff Nelson, Board Member
 San Miguel Consolidated Fire Protection District
Chris Winter, Board Member
 San Miguel Consolidated Fire Protection District
Gary D. Croucher, Fire Chief
 San Miguel Consolidated Fire Protection District
Darilyn O'Dell, Business Manager
 San Miguel Consolidated Fire Protection District

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Attachment—District’s Response to Draft Review Report

Review Report

Introduction

The State Controller's Office (SCO) reviewed the San Miguel Consolidated Fire Protection District's (District) system of administrative and internal accounting controls for the period of July 1, 2010, through June 30, 2012 (fiscal years (FY) 2010-11 and FY 2011-12). As necessary, we expanded our testing to include prior and future transactions to follow up on issues identified through interviews of district officials and through our review of the work of the independent auditors and other audit reports.

On April 17, 2014, the SCO notified Dave Rickards, Board President of the San Miguel Consolidated Fire Protection District, that the SCO would conduct an investigation of the financial practices and reporting of the San Miguel Consolidated Fire Protection District.

Based on a review of the District's Annual Financial Transaction Reports for FY 2010-11 and FY 2011-12 and the District's Independent Auditor's Report for FY 2011-12, the following was noted and provides the basis for this investigation:

Financial Transaction Reports

- Revenues were understated in FY 2010-11 and FY 2011-12 by \$557,878 and \$2,357,252, respectively
- Revenues were incorrectly classified in FY 2010-11 and FY 2011-12
- Grant Revenues were understated by \$1,841,483 in FY 2011-12
- Expenditures were overstated in FY 2010-11 and FY 2011-12 by \$827,298 and \$987,833, respectively
- Capital Projects Funds were not reported separately, as required, but are included in the General and Special Revenue Funds
- Prior period adjustments as a percentage of beginning fund balance ranged from 49% in FY 2010-11 to 204% in FY 2011-12

Independent Auditor's Reports (FY 2011-12)

- The District had a deficit unrestricted fund balance of \$2,212,865, an increase of \$847,311 from FY 2010-11
- The District expenditures exceeded revenues by \$557,668
- On September 25, 2012, the District negotiated an agreement with the California Department of Forestry and Fire Protection (CAL Fire) for fire protection services to the District

After considering the above information, we concluded that there is reason to believe that the Annual Report of Financial Transactions submitted by the District is misstated, incomplete, or incorrect. Therefore, under Government Code (GC) section 12464(a), Division of Audits conducted an investigation of the information provided in the

reports mentioned above. Pursuant to GC 12464(b), the District will bear the costs of this investigation, including preparing a report of the results and transmitting copies to the District Board of Directors.

This report presents the results of findings and conclusions reached in our review of the District's administrative and internal accounting controls system.

Background

The San Miguel Consolidated Fire Protection District is the largest fire district in the County of San Diego. The District was formed on July 1, 1988, through a merger of the Spring Valley and the Grossmont/Mt. Helix Fire Protection Districts. The District covers 41 square miles.

Objective, Scope, and Methodology

The objective of this review was to evaluate the San Miguel Consolidated Fire Protection District's system of administrative and internal accounting controls to ensure:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Adequate safeguard of public resources.

To accomplish our objective, we performed the following procedures:

- Evaluated the District's formal written internal policies and procedures;
- Conducted interviews with District employees and observed the district's business operations for the purpose of evaluating district-wide administrative and internal accounting controls;
- Reviewed the District's documentation and supporting financial records;
- On a limited basis, performed tests of transactions to ensure adherence with prescribed policies and procedures and to validate and test the effectiveness of controls; and
- Assessed various aspects of the District's internal control components and elements in accordance with guidelines established by the General Accounting Office.

Conclusion

Our review was limited to reviewing and assessing the following:

- Compliance with Government Code section 12464(a)
- Internal control components and elements
- Tests of selected transactions

Based on our review and assessment of the above, nothing came to our attention to warrant further tests of transactions relating to the District's administrative and internal accounting controls.

As part of our review, we made an assessment of various aspects of the District's internal control components and elements based on guidelines established by the General Accounting Office's Internal Control Management and Evaluation tool.

Of the 79 control elements evaluated pertaining to internal control components, we found:

- 64 control elements to be adequate;
- 14 control elements were not applicable due to the small size of the District. In these instances, compensating controls are in place to address these areas; and
- One control element to be deficient.

The results of our review and evaluation of elements on internal control are included in this report as an Appendix.

Views of Responsible Officials

We issued a draft report on July 30, 2014. David K. Rickards, President, responded by a letter dated August 11, 2014. The District addressed some areas in the report that it believed needed factual clarification. We made changes when we deemed it necessary, and addressed the District's concerns. The District's responses are included in this final review report as an attachment.

Restricted Use

This report is solely for the information and use of the San Miguel Consolidated Fire Protection District and the SCO; it is not intended to be and should not be used by anyone other than these parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

December 29, 2014

Findings and Recommendations

Noncompliance with Government Code section 12464(a)

Pursuant to Government Code section 12464(a), our review determined the following reporting issues:

Financial Transactions Report (FTR) for Fiscal Year (FY) 2011-12

- Revenues were understated by \$2,357,252 (reported \$18,679,567 instead of the actual of \$21,036,819)
- Revenues were incorrectly classified as Other Revenues and should have been reported separately as Operating Grants, Capital Grants, and Benefit Assessments
- Grant Revenues were understated by \$1,841,483 (reported \$1,266,072 instead of the actual of \$3,107,555)
- Expenditures were overstated \$987,833 (reported \$21,690,206 instead of the actual of \$20,702,373)
- Capital Projects Funds were not reported separately, as required, but are included in the General and Special Revenue Funds
- Prior period adjustments as a percentage of beginning fund balance was excessive (204%) with no explanation

FTR for FY 2010-11

- Revenues were understated by \$557,878 (reported \$18,683,591 instead of the actual of \$19,241,469)
- Revenues were incorrectly classified as Other Revenues and should have been reported separately such as Operating Grants, Capital Grants, and Benefit Assessments
- Expenditures were overstated \$827,298 (reported \$20,257,548 instead of the actual of \$19,430,250)
- Capital Projects Funds were not reported separately, as required, but are included in the General and Special Revenue Funds
- Prior period adjustments as a percentage of beginning fund balance was 49% without an explanation

The District's Financial Transactions Reports were submitted prior to the final year-end closing entries. Therefore, the amounts reported were pre-closing amounts and did not reflect year-end closing adjustments per the District.

Recommendation:

The District's FTRs submitted to the State Controller's Office (SCO) should include all year-end closing adjustments. If year-end closing adjustments are not available at the time of report submittal, the District should notify the SCO's Division of Accounting and Reporting and follow up with an amended report.

Additionally, with respect to future reports, the District should ensure that revenues are properly classified by type and source and that Capital Projects Funds are reported separately and not included in the General and Special Revenue Funds.

Results of Internal Control Components and Elements

As part of our review, we made an assessment of various aspects of the District's internal control components and elements based on guidelines established by the General Accounting Office's Internal Control Management and Evaluation tool.

Of the 79 control elements evaluated pertaining to internal control components, we found:

- 64 control elements to be adequate;
- 14 control elements were not applicable due to the small size of the District. In these instances, compensating controls are in place to address these areas; and
- One control element to be deficient.

The results of our review and evaluation of elements on internal control are included in this report as an Appendix.

Finding:

We found that the District's strategic plan for FY 2008-09 through FY 2011-2012 had not been updated.

A strategic plan is necessary for the proper operation of the District. Such a plan should be standardized in a workable, readable format that is made available throughout all levels of the organization. In addition, a strategic plan would provide written direction and guidance regarding a variety of subjects, issues, topics, and desired actions. These rules and regulations should be designed to enhance the ability of the District to conduct business, ensure consistency of decisions and continuity of action, and provide for the good order of the District.

The District's policy requires the strategic plan to be updated quarterly. However, the last update report was for the quarter ending June 30, 2009.

Recommendation:

The District's strategic plan should be reviewed and updated quarterly as scheduled by the District to ensure that:

- Objectives are clearly defined
- Strategy is properly formulated and implemented
- Progress is evaluated and monitored
- Necessary adjustments are made to stay on track

District's Response

It is our understanding that there is no legal requirement that a District adopt a strategic plan. While the District may not have updated the specific strategic plan following June 2009, it did engage in several practices that served essentially the same purpose as a strategic plan update. First, the District engaged in annual board workshops and budget workshops that served the purpose of addressing Board goals objectives and to track progress on these goals. Second, in 2011 District management, the Board, and District employee groups began to engage in the Labor Management Initiative (LMI) which served to address District goals and objectives through a united effort of labor and management. These goals and objectives were addressed throughout the year and reported to the Board regularly. Finally, updates on District goals and objectives are made on a monthly basis during the District Board meetings by the Chief during the Chiefs report which is also provided in written format. In addition, the District has both a written policies and procedures manual and Board Policy manual which are updated on a regular basis. For this reason, we believe the District does have clear and current administrative and operation policies as set forth in control element C2.g.

SCO's Comment

Our finding is not based solely on statutory requirement, but also upon the District's own policy and best practices for all public agencies. The results of our review and evaluation of elements of the District's internal control specifically determined whether the administrative and operation policies are in writing, current, and set clear procedures for compliance (Appendix, question C2g). We found that the District does have a strategic plan; however, the plan has not been updated for approximately three years. The District's policy requires that a strategic plan be updated quarterly. Although the District employs other methods to address some of the goals and objectives associated with its strategic plan, the District is not in compliance with its own policy regarding updating its strategic plan.

The finding and recommendation remain as stated.

Results from Tests of Selected Transactions

Using the results of our internal control matrix, we performed reviews of the following processes by testing selected transactions to evaluate whether controls were adequate.

- Contracts and Agreements
- District Business Cards (charge cards)
- Board Meetings / Minutes and Resolutions
- Accounts Payable
- Payroll

Conclusion:

Our review found that the District's internal controls regarding the above processes are adequate. Additionally, nothing came to our attention to warrant further tests of transactions relating to these processes.

**Appendix—
San Miguel Consolidated Fire Protection District
Evaluation of Elements of Internal Control**

Management Oversight and Control (Control Environment)		YES	NO	COMMENTS
Control Environment				
A1.	Integrity and Ethical Values			
	a. Are code of conduct and other policies regarding acceptable business practice, conflicts of interest, or expected standards to ethical and moral behavior established and communicated to all District management and employees?	X		
	b. Is the reasonable management attitude of "Tone at the Top" established and communicated to District management and staff?	X		
	c. Is everyday interaction with vendors, clients, auditors, and other parties based on honesty and fairness?	X		
	d. Is appropriate remedial action taken in response to non-compliance?	X		
	e. Is management appropriately addressing intervention or overriding established controls?	X		
A2.	Commitment to Competence			
	a. Is management identifying and defining the tasks required to accomplish particular jobs and fill - various positions?	X		
	b. Does the District conduct appropriate analysis of the knowledge, skills, and abilities needed to perform job assignments?	X		

	c. Is the District providing training and counseling in order to help employees maintain and improve their job competence?	X		
A3.	Audit Committee			
	a. Does the District have an audit committee that is appropriate for the size and nature of the entity?			N/A - The District is too small to have an audit committee. However, the District's Board President appoints an ad hoc finance committee to review the annual audit.
	b. Are members of the audit committee independent from the District management?			N/A
	c. Do audit committee members have sufficient knowledge, experience, and time to serve effectively?			N/A
	d. Does the audit committee meet regularly to set policies and objectives, review the District's performance, and take appropriate actions; and are minutes of such meetings prepared and signed on timely basis?			N/A
	e. Do the members of the audit committee regularly receive the information they need to monitor management's objectives and strategies?			N/A
	f. Does the audit committee review the scope and activities of the internal and external auditors?			N/A
	g. Does the audit committee meet privately with the Chief Financial Officer/and or accounting officers, internal auditors, and external auditors to discuss the reasonableness of the financial reporting process, the system of internal control, significant comments or recommendations, and management performance?			N/A
	h. Does the audit committee take actions as a result of its audit findings?			N/A

A4.	Management Philosophy and Operating Style			
	a. Is management conservative in accepting risks, and does management move carefully, and proceed only after careful evaluation?	X		
	b. Are procedures or activities in place to regularly educate and communicate to management and employees the importance of internal controls and to raise the level of understanding control?	X		
	c. Is personnel turnover in key functions at an acceptable level?			N/A - On September 25, 2012, the District negotiated an agreement with the California Department of Forestry and Fire Protection (CAL FIRE) for fire protection services to the District. Based on this negotiated agreement, a majority of the District personnel were transferred over to CAL FIRE).
	d. Does management have a positive and supportive attitude towards internal control and audit functions?	X		
	e. Are valuable assets and information safeguarded from unauthorized access or use?	X		
	f. Are there frequent interactions of senior management and operation management?	X		
	g. Is management attitude appropriate towards financial, budgetary and other operational reporting?	X		
A5.	Organizational Structure			
	a. Is the District's organizational structure appropriate for its size and the nature of its operation?	X		
	b. Are key areas of authority and responsibility defined and communicated throughout the organization?	X		
	c. Have appropriate and clear reporting relationships been established?	X		

	d. Does management periodically evaluate the organization's structure and make changes as necessary in fluctuating conditions?	X		
	e. Does the District employ an appropriate number of employees, particularly in managerial positions?	X		
A6.	Assignment of authority and responsibility			
	a. Is the District appropriately assigning authority and delegating responsibility to the proper personnel to deal with organizational goals and objectives?	X		
	b. Does each employee know how his or her work interrelates to others in the way in which authority and responsibility are assigned, and how duties are related concerning internal control?	X		
	c. Is delegation of authority appropriate in relation to the assignment of responsibility?	X		
A7.	Human Resources policies and practices			
	a. Are policies and procedures established for hiring, training, and promoting employees and management?	X		
	b. Are background checks conducted on candidates for employment?	X		
	c. Are employees provided the proper amount of supervision?	X		
Conclusion: There were no material deficiencies noted under Control Environment.				
Risk Assessment				
B1.	Establishment of Entity-wide Objectives			
	a. Are there entity-wide objectives that were established by management?	X		

	b. Are District-wide objectives clearly communicated to all employees, and does management obtain feedback signifying that communication has been effective?	X		
	c. Is there a relationship and consistency between the department's operational strategies and the District-wide objectives?	X		
	d. Is there an integrated management strategy and risk assessment plan that considers the District-wide objectives and the relevant sources of risk from internal management factors and external sources, and that establishes a control structure to address those risks?	X		
B2.	Risk Identification			
	a. Is management appropriately and comprehensively identifying risk using various methodologies?	X		
	b. Are there mechanisms in place to anticipate, identify, and react to routine events or acts that affect achievement of objectives?	X		
	c. Do adequate mechanisms exist to identify risks to the District arising from external factors?	X		
	d. Is management assessing other factors that may contribute to or increase the risk to which the District is exposed?	X		
	e. Is management identifying risks District-wide and for each significant activity level of the District?	X		
B3.	Risk Analysis			
	a. After risks to the District have been identified, does management undertake a thorough and complete analysis of the possible effect?	X		
	b. Has management developed an approach for risk management and control based on how much risk can be prudently accepted?	X		

Conclusion: There were no material deficiencies noted under Risk Assessment.				
Control Activities				
C1.	Policies and Procedures (General Applications)			
	a. Do appropriate procedures, techniques, and mechanisms exist with respect to each District's activities?	X		
	b. Are the control activities identified as necessary in place and being applied?	X		
	c. Are control activities regularly evaluated to ensure that they are still appropriate and working as intended?	X		
C2.	Common Categories of Control Activities			
	a. Are top level reviews made of actual performance relative to budgets, forecasts, and prior periods?	X		
	b. Do managers review performance reports?	X		
	c. For information processing, are varieties of controls in place for performing check accuracy, completeness, and authorization of transactions?	X		
	d. Are controlled items periodically counted and compared to amounts shown on control records?	X		
	e. For performance indicators, does management compare different sets of data and investigate differences?	X		
	f. Are duties properly segregated among different people to reduce the risk or error or inappropriate actions?			N/A - The District is too small to implement proper segregation of duties. However, we noted that several controls were in place to compensate for this internal control weakness. These include increased supervisory oversight, observations, inquiries, and reviews.

	g. Are administrative and operation policies in writing, current, and do they set clear procedures for compliance?		X	The District's strategic plan for FY 2007-08 through FY 2011-12 has not been updated. See Results of Internal Control Components and Elements Finding (page 6).
Conclusion: There were no material deficiencies noted under Control Activities.				
Information and Communication				
D1.	Information			
	a. Are mechanisms in place to obtain relevant information on legislative or regulatory developments and program, budget, or economic changes?	X		
	b. Is information provided to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively?	X		
	c. Is development or revision of information systems based on the strategic plan linked to the entity's overall strategy, and is it responsive to achieving District-wide objectives?	X		
	d. Does management support the development of necessary information systems and show its support by committing appropriate resources.	X		
D2.	Communications			
	a. Does management ensure that effective internal communications occur?	X		
	b. Does management ensure that effective external communication occurs regarding issues with serious impact on programs, projects and other activities?	X		
	c. Does the District employ various forms and means of communicating important information with employee and others?	X		
	d. Does the District manage, develop, and revise its information systems in an effort to continually improve usefulness and reliability?	X		

Conclusion: There were no material deficiencies noted under Information and Communication.

Monitoring				
E1.	On-going monitoring			
	a. Does management have a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations?	X		
	b. Do District personnel, in the process of performing their regular duties, obtain information about whether internal control is functioning properly?	X		
	c. Are communications from external parties corroborated with internally generated data and able to indicate problems with internal control?	X		
	d. Is there appropriate organizational structure and supervision to help provide oversight of internal control functions?			N/A - The District is too small to implement internal control structure; however, we noted compensating controls in place, such as increased supervisory oversight, observations, inquiries, and reviews.
	e. Are data recorded by information and financial systems periodically compared with physical assets and discrepancies?	X		
	f. Are the District Auditor's Office and other auditors regularly providing recommendations for improvements in internal control, and is management taking appropriate follow-up action?			N/A - No Auditor's Office. The District has a contract with an independent auditor, Hosaka, Rotherham & Company, CPA, that provides audit services and prepares the District's financial reports.
	g. Are meetings with employees used to provide management with feedback on whether internal control is effective?			N/A - The District employs only seven permanent staff. No formal meetings were conducted relating to internal controls; however, the District's manager is well aware of maintaining effective internal controls and periodically discusses internal control issues with appropriate staff.
	h. Are employees' regularly asked to state explicitly whether they comply with the District's code of conduct?	X		

E2.	Separate evaluation			
	a. Are the scope and frequency of separate internal control evaluations appropriate for the District?	X		
	b. Are the methodologies for evaluating the District's internal control logical and appropriate?	X		
	c. If the evaluations are conducted by the District Auditor's Office, does the office have sufficient resources, ability, and independence?			N/A - No Auditor's Office (see comment number E1(f)).
	d. Are deficiencies found during separate evaluations promptly resolved?	X		
E3.	Reporting deficiencies			
	a. Are there means of obtaining reports of deficiencies from both internal and external sources?	X		
	b. Is there ongoing monitoring of internal controls?	X		
	c. Are deficiencies reported to the person directly responsible and to a person at least one level higher?	X		
	d. Are the identified transactions or events investigated to determine causes and correct problems?	X		
Conclusion: There were no material deficiencies noted under Monitoring.				

**Attachment—
District's Response to
Draft Audit Report**



San Miguel Consolidated Fire Protection District

Serving the communities of Bostonia, Casa de Oro, Crest, Grossmont/Mt. Helix, La Presa, Rancho San Diego, Spring Valley, and unincorporated areas of El Cajon and La Mesa

August 11, 2014

Mr. Steven Mar, Chief, Local Governments Audit Bureau
State Controller's Office
Post Office Box 942850
Sacramento, California 94250-5874

Dear Mr. Mar,

The San Miguel Consolidated Fire Protection District ("District") received the draft report of the State Controller's Office ("SCO") review of the District's administrative and internal accounting controls. Thank you for providing the District with the opportunity to respond to the draft report. The District was very pleased to see that the auditors determined that the District's financial accounting controls met with State standards. This confirmed the District's assertion that our accounting and administrative staff are of the highest caliber and integrity. That said, the District would like to take this opportunity to address a few areas in the report that may need factual clarification.

Inaccurate Information in April 17, 2014 Letter

Included in the introduction to the report is the content of the original letter dated April 17, 2014 from the SCO. While we understand that the contents of that letter was included to provide context, there were some factual inaccuracies in that letter that the District believes should be corrected somewhere in the report, even if in a footnote, because they were not otherwise addressed or corrected in the report. In the letter (and reprinted on page 1 of the draft audit report) under the heading Independent Auditor's Reports (FY 2011-12) there were two statements that included factually inaccurate information that were not otherwise addressed in the report.

The statements with inaccurate information were:

- "The District had a deficit unrestricted fund balance of \$2,212,865, an increase of \$847,311 from FY 2010-11."

This statement is not accurate. *While the District's audit does show a deficit in the Unrestricted Fund Balance you neglect to mention that audit also shows the District with a positive Restricted Fund balance making the net fund balance a positive \$1,025,070.*

- "The District expenditures exceeded revenues by \$557,668."

This statement is not accurate. *The audit shows the District actually had Revenue over Expenditures in FY 2011-2012 in the amount of \$688,868.*

Therefore, the District respectfully requests that the report be revised to include a footnote in the report that corrects this information.

2850 Via Orange Way, Spring Valley, California 91978-1746
(619) 670-0500 • (619) 670-5331 Fax • www.smgfire.org

Cost of the Investigation

Page two of the report indicates that "the District will bear the costs of this investigation..." pursuant to Government Code 12464(b). It is the District's position, given that the results of the investigation found no wrongdoing on the part of the District, that the District taxpayers should not have to bear the costs of this investigation. Government Code 12464(b) authorizes an investigation "if the county, city, or district reports are not made in the time, form, and manner required or there is reason to believe that a report is false, incomplete, or incorrect." There is nothing in the report to support that the District's reports were "false, incomplete, or incorrect" or not made in the "time, form, or manner required." To the contrary, your investigation determined that the District did follow appropriate administrative and accounting practices. The investigation was based on faulty assumptions that could have easily been resolved with a simple phone call. Therefore, it is the District's position that charging the District for the cost of the investigation would not only be unfair to the taxpayers, it would violate the provisions of Government Code 12464.

Finding - District Strategic Plan for FY 2008-2009 through FY 2011-12 Had Not Been Updated

It is our understanding that there is no legal requirement that a District adopt a strategic plan. While the District may not have updated the specific strategic plan following June 2009, it did engage in several practices that served essentially the same purpose as a strategic plan update. First, the District engaged in annual board workshops and budget workshops that served the purpose of addressing Board goals objectives and to track progress on these goals. Second, in 2011 District management, the Board, and District employee groups began to engage in the Labor Management Initiative (LMI) which served to address District goals and objectives through a united effort of labor and management. These goals and objectives were addressed throughout the year and reported to the Board regularly. Finally, updates on District goals and objectives are made on a monthly basis during the District Board meetings by the Chief during the Chief's report which is also provided in written format. In addition, the District has both a written policies and procedures manual and Board Policy manual which are updated on a regular basis. For this reason, we believe the District does have clear and current administrative and operation policies as set forth in control element C2.g.

Thank you for the opportunity to respond to the draft report and thank you for your consideration in this matter. Please do not hesitate to contact me should you have any questions.

Sincerely,



David K. Rickards, President
Board of Directors

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>