

EAST CONTRA COSTA FIRE PROTECTION DISTRICT

MEMORANDUM ON INTERNAL CONTROL

**FOR THE YEAR ENDED
JUNE 30, 2022**

This Page Left Intentionally Blank

**EAST CONTRA COSTA FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL**

For the Year Ended June 30, 2022

Table of Contents

	<u>Page</u>
<i>Memorandum on Internal Control</i>	1
Schedule of Material Weaknesses	3
Schedule of Other Matters	5
Current Status of Prior Year Material Weaknesses	7

This Page Left Intentionally Blank

MEMORANDUM ON INTERNAL CONTROL

Board of Directors
of the East Contra Costa
Fire Protection District
Brentwood, California

In planning and performing our audits of the basic financial statements of the East Contra Costa Fire Protection District (District) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 and that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be 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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control included on the Schedule of Material Weaknesses to be material weaknesses. We consider the deficiencies in internal control included as items 2021-01 to 2021-02 on the Current Status of Prior Year Material Weaknesses to be material weaknesses.

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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

This communication is intended solely for the information and use of management, the Board, others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Maze + Associates'.

Pleasant Hill, California
February 20, 2024

This Page Left Intentionally Blank

**EAST CONTRA COSTA FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF MATERIAL WEAKNESSES

2022-01 Analyzing Activity in General Ledger Funds and Developing Year End Closing Procedures

Transactions posted to the general ledger throughout the fiscal year should be reviewed in detail to ensure that the transactions are posted to the correct general ledger accounts and accurately reflect the activity that occurred. After initial year-end closing entries are posted to the general ledger, all funds should be analyzed to ensure that additional closing entries are not required prior to providing the general ledger for audit. This analysis should include entity-wide level adjustments and should also include a review of budget data in the general ledger for completeness and accuracy.

We understand that due to the taking on the accounting from the Contra Costa County that there were some conversion issues.

If fund analyses are not performed throughout the fiscal year and during the year-end closing process, unauthorized transactions or material errors in the general ledger and interim financial reports may not be detected and corrected in a timely manner and interim or year-end reports may be materially inaccurate.

District staff must develop procedures to ensure the year-end closing process includes an analysis of accounts to ensure that the presentation in each fund and account is appropriate prior to the start of the year-end audit. And, that detailed analysis should also be incorporated into the monthly closing process throughout the fiscal year to minimize the impact on the year-end closing. Finally, prior to providing the general ledger for audit, the District should ensure that the beginning fund balance in each fund agrees to the prior year audited ending fund balance, thus ensuring that all prior year post-closing entries have been properly recorded in the general ledger.

202-02 Capital Assets Inventory, Accounting and Depreciation

Capital assets should be recorded at historical cost or estimated historical cost if actual historical cost is not available and generally accepted accounting principles require that the District's capital assets, other than land, be depreciated over the estimated useful lives of those assets. And, to facilitate the proper recording of capital asset activity, a capitalization policy should be in place that includes capitalization thresholds, useful lives, disposal authorization, determination of fair value of contributed assets, definitions of networks and subsystems, defining collections, and acquisition approval.

The District received a detailed schedule of land, buildings and improvements, equipment and vehicles contributed by the County as of July 1, 2010 that included the historical cost of those assets that was recorded in the general ledger at that date. However, we understand the District has inventoried its capital assets in use, but that inventory has not been reconciled with the detail provided by the County.

As a result, the District has not made any adjustments to the general ledger balance of the capital assets contributed by the County, other than to record additions and retirements of buildings and certain vehicles subsequent to July 1, 2010. In addition, the District has not calculated or recorded the balance of accumulated depreciation for the applicable assets and has not adopted a formal capitalization policy. The Capital Assets are misstated and not reported in accordance with GAAP and GASB.

This Page Left Intentionally Blank

**EAST CONTRA COSTA FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL**

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

EFFECTIVE FISCAL YEAR 2022/23:

GASB 91 – Conduit Debt Obligations

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

GASB 96 – Subscription-Based Information Technology Arrangements

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

This Page Left Intentionally Blank

**EAST CONTRA COSTA FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL**

CURRENT STATUS OF PRIOR YEAR MATERIAL WEAKNESSES

2021-01 Analyzing Activity in General Ledger Funds and Developing Year End Closing Procedures

Transactions posted to the general ledger throughout the fiscal year should be reviewed in detail to ensure that the transactions are posted to the correct general ledger accounts and accurately reflect the activity that occurred. After initial year-end closing entries are posted to the general ledger, all funds should be analyzed to ensure that additional closing entries are not required prior to providing the general ledger for audit. This analysis should include entity-wide level adjustments and should also include a review of budget data in the general ledger for completeness and accuracy.

The District's accounting records are maintained by both the internally and Contra Costa County and the general ledger reports generated by each entity are combined to prepare the District's annual financial statements.

The general ledger reports initially provided for the 2020 audit were incomplete and did not include all data for all of the District's funds. After we did finally receive the complete 2020 reports, there were a significant amount of journal entries needed to both tie to the cash balance at the County as well as other items.

The post-closing adjusting journal entries we found during the audit for each fiscal year included the following:

- The major adjustments needed in fiscal year 2020 related to the following journal entries:
 - Transfer from Cypress Lakes CFD of \$269,500 that occurred in previous fiscal years. The District needs to request these funds to be transferred out of the County and into the District's bank account.
 - Budgeted reserve transfers from the General Fund to the Capital Improvement Fund, Equipment Replacement Fund and OPEB Funds
 - Correction to correct the recording of PARS and CCCERA payments. During the year, the District was subjected to penalties for non payment.
 - The removal of 2019 accruals related to accounts receivables.
 - Correction of the payment to PNC as principal and interest for the equipment lease.
 - Record OPEB-related liability and deferred outflows/inflows of resources net activity
 - Record pension-related liability and deferred outflows/inflows of resources net activity

We understand that the need for so many post-closing journal entries was caused by the District staff starting to take over the reporting from the City of Brentwood.

If fund analyses are not performed throughout the fiscal year and during the year-end closing process, unauthorized transactions or material errors in the general ledger and interim financial reports may not be detected and corrected in a timely manner and interim or year-end reports may be materially inaccurate.

**EAST CONTRA COSTA FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL**

CURRENT STATUS OF PRIOR YEAR MATERIAL WEAKNESSES

**2021-01 Analyzing Activity in General Ledger Funds and Developing Year End Closing Procedures
(Continued)**

District staff must develop procedures to ensure the year-end closing process includes an analysis of accounts to ensure that the presentation in each fund and account is appropriate prior to the start of the year-end audit. And, that detailed analysis should also be incorporated into the monthly closing process throughout the fiscal year to minimize the impact on the year-end closing. Finally, prior to providing the general ledger for audit, the District should ensure that the beginning fund balance in each fund agrees to the prior year audited ending fund balance, thus ensuring that all prior year post-closing entries have been properly recorded in the general ledger.

Management's Response:

This issue has been addressed with the implementation of Financial Edge accounting software and the hiring of a Staff Accountant. Prior to the implementation of the Financial Edge accounting software, the District had 3 separate and independent mechanisms to trace accounting transactions (one for revenue, one for expenses and one for payroll). The entire fiscal year of 2019-2020 was recreated in the Financial Edge software with analysis and closing procedure pending the June 30, 2019 audit. The audit was completed in April of 2021 and provided the beginning balances for the Financial Edge software as of 7/1/2020. Until these balances could be mapped and entered into the system, analyzing fund activity and closing procedures had to be delayed well into the following fiscal year.

2021-02 Capital Assets Inventory, Accounting and Depreciation

Capital assets should be recorded at historical cost or estimated historical cost if actual historical cost is not available and generally accepted accounting principles require that the District's capital assets, other than land, be depreciated over the estimated useful lives of those assets. And, to facilitate the proper recording of capital asset activity, a capitalization policy should be in place that includes capitalization thresholds, useful lives, disposal authorization, determination of fair value of contributed assets, definitions of networks and subsystems, defining collections, and acquisition approval.

The District received a detailed schedule of land, buildings and improvements, equipment and vehicles contributed by the County as of July 1, 2010 that included the historical cost of those assets that was recorded in the general ledger at that date. However, we understand the District has inventoried its capital assets in use, but that inventory has not been reconciled with the detail provided by the County.

As a result, the District has not made any adjustments to the general ledger balance of the capital assets contributed by the County, other than to record additions and retirements of buildings and certain vehicles subsequent to July 1, 2010. In addition, the District has not calculated or recorded the balance of accumulated depreciation for the applicable assets and has not adopted a formal capitalization policy. The Capital Assets are misstated and not reported in accordance with GAAP and GASB.

Management's Response:

The consolidating of assets from the County to the East Contra Fire Protection District made valuation difficult. The Staff Accountant has booked the Capital Assets per the June 30, 2019 audited financial statements.