NOVATO FIRE PROTECTION DISTRICT

MEMORANDUM ON INTERNAL CONTROL AND REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED JUNE 30, 2013
# Memorandum on Internal Control and Required Communications

For The Year Ended June 30, 2013

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MEMORANDUM ON INTERNAL CONTROL

To the Board of Directors of
the Novato Fire Protection District
Novato, California

We have audited the basic financial statements of the Novato Fire Protection District (District) for the year ended June 30, 2013, and have issued our report thereon dated October 30, 2013. In planning and performing our audit of the basic financial statements of the Novato Fire Protection District, 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 our auditing procedures 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control that we consider to be significant deficiencies that are included on the Schedule of Significant Deficiency.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of potential benefit to the District.
This communication is intended solely for the information and use of management, Board of Directors, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

Pleasant Hill, California
October 30, 2013

Maze & Associates
NOVATO FIRE PROTECTION DISTRICT
MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCY

2013-01 – Documentation and Approval of Credit Card Purchases

Criteria: Sufficient documentation should be maintained to support credit card transactions made by District employees.

Condition: During the audit, we selected twenty-five credit card transactions to test the District’s controls over credit card purchases. The District could not locate supporting documents for eight of the samples we selected, two of which were transactions that occurred after the District adopted the new credit card policy in April, 2013. Furthermore, we noted that there was no evidence of a review of credit card statements for the months July, 2012 through February, 2013.

Effect: Without proper documentation for each credit card purchase, the District cannot validate if the purchases made are appropriate. Also, the lack of proper review of the monthly statements increases the risk of unauthorized transactions.

Cause: We were informed by District management that the District is aware that there are inadequate control procedures in place for purchases made with District’s credit cards.

Recommendation: Our testing shows that the Finance Director started reviewing the credit card statements in March, 2013. The District’s current credit card policy requires cardholders to submit supporting documents to the Accounting Specialist. The District should educate the credit cardholders of the new policy. In addition, the District should investigate any transactions that are insufficiently supported.
2013-02 – Maintenance of Advancement Records for all District Employees

Criteria: The District should maintain Advancement Records that support the current pay rates of its employees.

Condition: During the audit, we selected ten payroll transactions to test for the District’s controls over payroll processing. It appears that the District does not have the current Advancement Record on file to support one of the transactions we selected. The pay step noted on the Advancement Record on file for that employee does not correspond to the pay rate used for the transaction tested.

Effect: Without proper documentation, it is difficult to verify that the correct pay rate is being used.

Cause: We were informed that an Advancement Record was not filed when the employee was promoted.

Recommendation: The District should keep current Advancement Records of all employees. Pay rates should not be adjusted unless an Advancement Record is present.

2013-03 – Internal Control of Petty Cash

Criteria: Good internal control dictates that one employee should not have access to records used to maintain related assets. Good internal control further dictates that another employee should be involved in the records or assets so that they provide a system of good checks and balances.

Condition: The District’s petty cash is reconciled and replenished by one of the petty cash custodians.

Effect: This condition does not permit for good checks and balances to be performed by multiple employees.

Cause: The above condition was caused by limited administrative staffing in the District.

Recommendation: Petty cash reconciliation should be reviewed, prior to replenishment, by an employee who is not the custodian of petty cash. Alternatively, a surprise petty cash count should be performed periodically to strengthen internal control.
NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We have cited them here to keep you abreast of developments:

EFFECTIVE FISCAL 2014:

GASB Statement 65 – Items Previously Reported as Assets and Liabilities

This Statement establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, and certain items that were previously reported as assets and liabilities recognizes as outflows of resources or inflows of resources.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

Statement No. 63 established the financial statement presentation for deferred inflows and deferred outflows, and Statement No. 65 makes other changes and defines certain transactions subject to this new presentation.

GASB Statement 66 – Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62

The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement removes the GASB Statement No. 10 provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.
GASB 67 – Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25

This statement is applicable when a Trust arrangement is established to hold the employer contributions prior to payment to the retirees (i.e. funding changes to prefunding rather than the current pay-as-you-go funding).

This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.


Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively.
EFFECTIVE FISCAL 2015:

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)

This Statement will have material impact on the District’s financial statements. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer’s prior fiscal year (the measurement date), consistently applied from period to period.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees’ past periods of service (total pension liability), less the amount of the pension plan’s fiduciary net position.

- Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer’s most recent year-end).

- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period’s service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.
GASB 69 – Government Combinations and Disposals of Government Operations

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.
Fiscal Year 2011-12

The District utilizes an American Express credit card for routine purchases. There are approximately 15 authorized users of the credit card. American Express, on a monthly basis, summarizes charges by user. Each user reviews his or her American Express summary to indicate approval, if applicable. However, we found no evidence that each user's monthly summary was reviewed or approved by anyone other than the card user. Accidental or intentional errors could occur without a secondary review. The review should be documented and performed by someone other than the user.

Current Year Status: See current year Significant Deficiency 2013-01.
REQUIRED COMMUNICATIONS

October 30, 2013

To the Board of Directors of
the Novato Fire Protection District
Novato, California

We have audited the basic financial statements of the Novato Fire Protection District (District) for
the year ended June 30, 2013. Professional standards require that we communicate to you the
following information related to our audit under generally accepted auditing standards and,
Government Auditing Standards.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The
significant accounting policies used by Novato Fire Protection District are described in Note 1 to
the financial statements. The following pronouncements became effective, but did not have a
material effect on the financial statements:

GASB 60 - Accounting and Financial Reporting for Service Concession Arrangements

GASB 62 - Codification of Accounting and Financial Reporting Guidance Contained in
Pre-November 30, 1989 FASB and AICPA Pronouncements

The following pronouncements became effective, and required a format change in the Statement
of Net Assets and certain nomenclature revisions in the footnotes accompanying the financial
statements:

GASB 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of
Resources, and Net Position

This Statement provides financial reporting guidance for deferred outflows of resources and
defered inflows of resources. Concepts Statement No. 4, Elements of Financial
Statements, introduced and defined those elements as a consumption of net assets by the
government that is applicable to a future reporting period, and an acquisition of net assets
by the government that is applicable to a future reporting period, respectively. Previous
financial reporting standards do not include guidance for reporting those financial
statement elements, which are distinct from assets and liabilities.
Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

**Unusual Transactions, Controversial or Emerging Areas**

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

**Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the District’s financial statements was:

Management’s estimate of depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 4 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the District’s financial reporting process related to the value of the District’s Note Receivable.

**Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.
Management Representations

We have requested certain representations from management that are included in a management representation letter dated October 30, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

With respect to the required supplementary information accompanying the financial statements, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion nor provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Introductory and Statistical Sections included as part of the Comprehensive Annual Financial Report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we did not express an opinion nor provide any assurance on them.

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

Very truly yours,

Maze & Associates