

April 17, 2014

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

Dear Mr. Rickards:

This is to notify you that I have directed the State Controller's Office, Division of Audits to conduct an investigation of the financial practices and reporting of the San Miguel Consolidated Fire Protection District (District). The investigation will be conducted under Government Code (GC) 12464(a) and 12410.

Based on a review of the District's Annual Financial Transaction Reports for Fiscal Years 2010-11 and 2011-12, and the District's Independent Auditor's Report for Fiscal Year 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 were included in the General Fund and Special Revenue Fund.
- 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.
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- On September 25, 2012, the District negotiated an agreement with the California Department of Forestry and Fire Protection (CAL FIRE) for fire protection services for the District.

After considering the above information, I have 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 GC 12464(a), I have directed the Division to conduct 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.

In addition, I have directed the Audits Division to review any programs with State general or special funding and/or any federal funding passed through a State agency to the District. These additional reviews will be conducted under GC 12410, which authorizes the Controller to "...superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment." While the focus of the review will be on FY 2010-11 and FY 2011-12, issues may arise in which a review of financial activities will necessitate a review of transactions in current and/or prior periods. The State Controller's Office will bear the cost of this review.

The Audits Division will contact you to schedule an entrance conference and provide information regarding the specifics of the investigation, including a list of materials that you must make available. We expect that the entrance conference will be held in May, with fieldwork to begin thereafter.

If you have any questions about these investigations, please contact Jeffrey V. Brownfield, CPA, Chief, Division of Audits, by telephone at (916) 324-1696.

Sincerely,
Original signed by:

JOHN CHIANG
California State Controller

cc: Rick Augustine, Member, Board of Directors
San Miguel Consolidated Fire Protection District
Karrie Johnston, Board Member, Board of Directors
San Miguel Consolidated Fire Protection District
William Kiel, Member, Board of Directors
San Miguel Consolidated Fire Protection District
Dan McMillan, Member, Board of Directors
San Miguel Consolidated Fire Protection District
Jeff Nelson, Member, Board of Directors
San Miguel Consolidated Fire Protection District
Chris Winter, Member, Board of Directors
San Miguel Consolidated Fire Protection District