

NORTH SAN JUAN FIRE PROTECTION DISTRICT

Report to: North San Juan Fire Protection District Board Chair Ed Beckenbach, District Board Members, District Fire Chief, District Officers, Firefighters, Staff and Public

From: Pat Leach, District Board Treasurer

Regarding: Auditor's Report for Year Ended June 30, 2019

Auditors Smith & Newell reporting on the North San Juan Fire Protection District's fiscal year ending June 30, 2019 expressed the following summarized comments regarding Internal Control over Financial Reporting, which is found at the end of their formal report. The Audit Report can be found in its entirety on the District's webpage (<https://nsjfire.org/district-finances/>)

Internal Control Over Financial Reporting

“A deficiency in internal controls 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. 1) A material weakness is a deficiency....in internal controls 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. 2) A significant deficiency is a deficiency, or 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.”

Given the limitations of auditing procedures described on page 25 of the 2019 Audit, Smith & Newell states, “we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies. (2019-001 and 2019-002)”

Compliance and Other Matters

“As part of obtaining reasonable assurance about whether the District'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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.”

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**Schedule of Findings and Recommendations
For the Year Ended June 30, 2019**

2019-001 Deficiencies in Control Structure Design (Significant Deficiency)

Criteria

Good internal control requires that appropriate segregation of duties regarding collections, data input, reconciliations and general operating procedures be incorporated and implemented in the District's activities.

Condition

We noted that there is an absence of appropriate segregation of duties consistent with control objectives.

Cause

The District has limited staff.

Effect

The District's internal control procedures allow one person to receive cash receipts, make deposits and reconcile cash held in the County Treasury.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

Not applicable.

Repeat Finding

Not a repeat finding.

Recommendation

We recommend that a continued effort be made to incorporate and implement good internal control policies and practices in the District's operating procedures.

Views of Responsible Officials and Planned Corrective Action

Refer to separate *Management's Corrective Action Plan* for views of responsible officials and management's responses.

2019-002 Cash Reconciliation (Significant Deficiency)

Criteria

Good internal control requires that all cash recorded on the District's general ledger be reconciled on a regular basis and that the reconciled balance agree to the County records and supporting documentation.

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Condition

We noted that the June 30, 2019 reconciliations for the cash held in the County Treasury did not agree to the District's general ledger. Prior to audit adjustments, there were unreconciled differences of approximately \$18,000 and unknown balance adjustment journal entries being recorded in the general ledger.

Cause

The District's cash reconciliation is being performed, although the reconciled balance does not agree to the balance reported in the County Treasury. In addition, adjustments are being recorded in the District's general ledger that do not have supporting documentation and are unidentified as to the reason for the adjustment.

Effect

At June 30, 2019, prior to any audit adjustments, there were unreconciled differences of cash held in the County Treasury of approximately \$18,000 which required adjustment.

Questioned Cost

No questioned costs were identified as a result of our procedures.

Context

We obtained the District's cash reconciliations as of June 30, 2019 and verified any outstanding items and traced to available supporting documentation.

Repeat Finding

Not a repeat finding.

Recommendation

We recommend that the District reconcile all cash recorded on the general ledger to the balance in the County Treasury on a regular basis.

Views of Responsible Officials and Planned Corrective Action

Refer to separate *Management's Corrective Action Plan* for views of responsible officials and management's responses.

District's Responses to Findings:

MANAGEMENT'S CORRECTIVE ACTION PLAN

Addressing: 2019-001 Deficiencies in Control Structure Design (Significant Deficiency)

Albeit accurate that the District functions with a qualified staff of two part-time individuals, it is agreed that best practices require appropriate segregation of duties regarding collections, data input, reconciliations and general operating procedures. And that District policy, procedures and job descriptions are to clearly identify each person(s) role and tasks that are then rigorously followed by Staff.

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Should an atypical event require alternate resolution, the Staff's Supervisor – the Fire Chief – is to appoint a temporary qualified replacement with limited responsibility for the short-term.

Additionally, all Warrant Requests are to be signed by either the Fire Chief and one Board Member, or any two Board Members.

Further, the current Board Treasurer is to support Staff by being reasonably available to assist when necessary.

Addressing: 2019-002 Cash Reconciliation (Significant Deficiency)

Recognizing a primary and significant source of funding for the North San Juan Fire Protection District is the stakeholders of the Fire District, it is imperative that good internal control and transparency be a priority when accounting for the Financial Records of the District's General Ledger.

Additionally, all Accounts of the District are to be reconciled on a regular basis, without delay, and that the reconciled balances agree with the County records and supporting documentation.

Further, the current Board Treasurer is to hold quarterly meetings with the Finance Committee to make recommendations to the District Board for approval of a Preliminary Budget, and any adjustments as necessary. And said Treasurer is to hold regular meetings with the District Manager of Finance to review all pertinent documents, such as but not limited to, Accounts Receivable, Accounts Payable, Month End Reconciliations, Fund Balances, Payroll and Taxes, Contracts, etc., in preparation of reporting to the District Board at its Regular Meetings.

Respectfully Submitted,

Pat Leach, District Board Treasurer

28 April 2020