

July 15, 2016

2016-803

Mark Heine, Chief
Novato Fire Protection District
95 Rowland Way
Novato, California 94945

Dear Chief Heine:

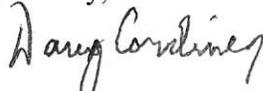
California Government Code section 8546.10 authorizes the California State Auditor (State Auditor) to establish a high-risk local government agency audit program (local high risk program) to identify local government agencies—including but not limited to counties, cities, and special districts—that are at high risk for the potential of waste, fraud, abuse, and mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness.

On April 28, 2016, the State Auditor informed you that the Novato Fire Protection District (District) exhibited certain potential risk factors. At a subsequent entrance conference, staff from the State Auditor's office informed you that among these factors were insufficient oversight of public funds by both the board and the district staff, and the high levels of overtime paid to district staff. The purpose of our initial assessment was to better understand the cause behind these risk factors and determine the district's planned response. The State Auditor has now completed its initial assessment after interviewing district officials and reviewing available documentation.

As a result of our initial assessment, the State Auditor concludes that the district has taken positive steps to address the risk factors we identified, but that it needs to take additional actions to resolve them. Although the State Auditor will not be seeking approval from the Joint Legislative Audit Committee (audit committee) to perform an audit, we will continue to monitor the district's progress and actions, and may consider performing additional work, including conducting future assessments and seeking approval from the audit committee to perform an audit, if necessary. In particular, the district should ensure that employees adhere to the district's purchasing policies, enhance the board's oversight, continue its efforts to reduce non-pay compensation, and identify ways to curb its overreliance on overtime. Please see the attachment for additional information. To facilitate our ongoing monitoring, we will periodically contact the district to review its progress in addressing these issues. Should the State Auditor plan to perform additional work, we will notify you at that time.

We greatly appreciate the cooperation provided by district officials during the on-site assessment. If you have any questions, please do not hesitate to contact John Baier, Audit Principal at (916) 445-0255.

Sincerely,



For ELAINE M. HOWLE, CPA
State Auditor

cc: L.J. Silverman, President of the Board of Directors
Dan Hom, Finance Director
Gretchen Feliciano, Human Resources Manager

Attachment

Attachment

In the course of our assessment we determined that the following areas need improvement:

Purchasing

- Ensure that all purchases have evidence of signed approvals and reviews, as the district's policy requires.
- Provide regular training to all staff responsible for making and approving purchases.
- Ensure that staff specifies the project, event, or purpose for each credit card purchase, as the district's policy requires.
- Clarify the purchasing policy to indicate that contract splitting is not allowed for any purchases, including goods and services, and professional services.

Board Oversight

- Provide training to help board members better understand their fiduciary responsibility to oversee the district's financial activities and the district's purchasing policy.
- Consider changing the role of the chief and finance director to non-voting members of the board's finance committee.
- Clarify the misunderstanding between the board and the district's finance director by adopting a board policy to periodically rotate the district's external auditor.
- Improve the usefulness of the financial information that the district provides to the board, such as providing separate listings of payments to vendors and payments to employees, rather than a combined list of all these payments.

Compensation

- Continue efforts to reduce and eventually eliminate non-pay compensation to employees, including matching contributions to an employee's deferred compensation plan and paying part of the employee's portion of the retirement contribution.
- Consider ways to reduce the amount of overtime paid to employees and, in particular, curb the district's reliance on using overtime to fill routine employee absences.