SCHEDULE OF FINDINGS AND QUESTIONED COSTS
EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS

Finding #2011-1

Condition: In reviewing fuel reimbursements for the Volunteer Fire Departments, no departments submit detailed vehicle mileage logs to describe and detail business usage of the vehicles. There is a lack of written policies regarding vehicle usage and fuel consumption.

Effect: Not submitting vehicle logs with the reimbursement may encourage charging fuel purchases for personal use.

Cause: Management of the Volunteer Fire Departments submits receipts of fuel purchases but do not submit logs substantiating business use.

Criteria: Proper financial management practices promulgated by the Emergency Services District Operating Guide.

Recommendation: Management of the Volunteer Fire Departments should be required to submit mileage logs to substantiate business usage or not receive reimbursements for fuel.

Management’s Response: We concur with the above finding. Effective August 8, 2012, (to be revised November 14, 2012) the District instituted a financial policies and procedures manual. The procedures require the use and maintenance of fuel logs in all District vehicles. The fuel logs include the date, current mileage, the number of gallons purchased, the type of fuel purchased, the vehicle identification number, the year and model of the vehicle, and the last four digits of the VIN. In the event that a request for fuel reimbursement appears unreasonable, Department Chiefs and the District Administrator will examine the fuel logs and investigate the variance promptly.

See page 13 of the Financial Policies and Procedures Manual and APPENDIX F
EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS
(CONTINUED)

Finding #2011-2

Condition: Inspection of invoices submitted by the Volunteer Fire Departments for reimbursement indicates few approvals, justifications or reasons for any purchases. Expense reimbursements are normally accepted and paid without such justification. Some expenses are from personal credit card statements or receipts and lack detailed information. Many reimbursements are from copies or statements, without the original invoices attached. Shipping addresses sometimes were not the addresses of the individual fire departments. Repairs and Maintenance of vehicles are difficult to track.

Effect: Lack of justifications on purchases exposes the District to a greater possibility that purchases may be reimbursed for personal items. This can result in misappropriation and abuse of District funds.

Cause: Management of the Volunteer Fire Departments does not submit proper justifications or approvals for many of their reimbursement request

Criteria: Proper financial management practices promulgated by the Emergency Services District Operating Guide.

Recommendation: Management should submit justifications and approvals to properly substantiate business purposes of purchases. Reimbursements of personal credit cards should be discontinued. Internal controls regarding approval and payment of reimbursements should be established. Expense reimbursements which do not have proper documentation attached should be rejected.

Management’s Response: We concur with the above finding. Effective August 8, 2012, (to be revised November 12, 2012) the District instituted a financial policies and procedures manual. The manual documents the procedures for verification, approval, and payment of department expenses. All questioned costs will be promptly documented and reported to the board Treasurer by the District Administrator. If unallowable, inaccurate, or duplicate charges are included in a reimbursement request, the amount will be deducted from the department’s reimbursement and a recalculated total will be noted on the reimbursement cover sheet. In addition, the Board of Commissioners will examine and approve all department requests for reimbursement at the monthly meeting prior to replenishing the departments’ operating funds. The use of personal credit cards for reimbursements submitted to the District has been discontinued.

El Paso County Emergency Services District #2

Findings and Questioned Costs

(Continued)

Finding #2011-3

Condition: Inspection of travel, training and meal reimbursements submitted by the Volunteer Fire Departments for reimbursement indicates almost complete lack of documentation or proper justifications for the travel/training expenses. In addition, meal reimbursements do not describe business purpose. Per diem amounts are issued to individuals without supporting calculations. There are no supporting documents such as attendance records or certificates of completion to show courses or seminars were necessary for the needs of each fire department. There are no uniform procedures established for travel expenses (such as calculating per diem amounts) and meals as each department apparently uses different forms or methods.

Effect: Lack of proper documentation on travel, training and meal expenses exposes the District to abuse in this area. This makes it difficult to determine if such expenses are for legitimate business purposes benefiting the department and the District.

Cause: Management of the Volunteer Fire Departments does not submit proper supporting documentation for travel, training and meal expenses.

Criteria: Proper financial management practices promulgated by the Emergency Services District operating guide.

Recommendation: Travel/Training policies and procedures should be set up for each Volunteer Fire Department. Reimbursement requests for travel and meals should not be paid without proper documentation.

Management’s Response: We concur with the above finding. Effective August 8, 2012, (to be revised November 14, 2012) the District instituted a financial policies and procedures manual. Under the policies and procedures, all employees and volunteers will receive a per diem allowance for travel related expenses. A waiver for the receipt of per diem funds will be prepared by the Department Chief which includes the total per diem amount per participant (per diem rate times the number of days) and the names of the participants. The Department Chief will sign and issue checks to the participants based on the information presented on the waiver. Upon receipt of the check, the participant will sign the waiver acknowledging the receipt of per diem funds and a copy of the waiver will be filed by the District Administrator. If traveling for training, the certificate of completion must be presented to the Department Chief as proof of attendance. A copy will be retained by the Department Chief.

Per diem amounts will be based on current GSA (U.S. General Services Administration) rates. These can be located at www.gsa.gov.

Finding #2011-4

Condition: Expense reimbursement requests show many instances of improper classification (categorization) of expenses. For example, it was noted that promotional items were incorrectly charged to equipment purchases, professional services are incorrectly charged to new equipment purchases, etc. There is a lack of controls, checks and balances, uniformity when dealing with expenses, proper reimbursement, and usage of funds.

Effect: Improper classification of expenses, if not detected, can mislead a reader of the financial statements of the District as to the total amounts charged to the various expense categories. Incorrect conclusions can result. Misappropriation of funds is easier to accomplish.

Cause: Management submits reimbursement requests which often have errors in categorizing expenses.

Criteria: Proper financial management practices promulgated by the Emergency Services Districts Operating Guide.

Recommendation: Policies and procedures of proper expense classification, with examples, should be established and disseminated to each fire department. These policies and procedures should include thresholds for what is a capital asset, what is a repair, what is charged into administration expenses, etc. Budgets should be required which compare budgeted amounts to actual expenses.

Management’s Response: We concur with the above finding. Effective August 8, 2012, (to be revised November 14, 2012) the District instituted a financial policies and procedures manual. The manual requires the use of a reimbursement cover sheet which itemizes total expenses by natural category. Reimbursement packages must include the following: copies of all checks issued during the month, substantiating invoices or other supporting documentation, and copies of the station’s credit card statement(s) with original receipts. The Department Chief will review the reimbursement package for completeness and accuracy prior to presenting it to the District Administrator for reimbursement.

To facilitate the implementation of and the adherence to the above procedures, the District has hired an Administrative Assistant for each Department. Training will be provided on “QuickBooks” to all Administrative Assistants by an external accounting firm. All Departments will be required to use “QuickBooks” to record financial transactions. The above procedures will be addressed to assure the reimbursement request is accurate and consistent with the financial manual. The training will specifically address allowability of the expenditure, expense classification, authorization, timely submission, and budgeting.

Budgets will be prepared for each department and will be inputted into “QuickBooks”. On a monthly basis, a budget to actual report will be prepared and presented to the Board of Commissioners.

Finding #2011-5

Condition: Questioned costs. In April, 2011, there was a reimbursement to Clint Fire Department for a Las Vegas trip. The reimbursement was paid from a hotel confirmation only and did not have accompanying lodging receipts attached. Without proper supporting and corroborating documentation on the nature and purpose of the trip, the cost must therefore be questioned. The amount of the reimbursement was $1,213.80.

Effect: Payment of unsupported reimbursement for the Las Vegas trip may have caused abuse of District funds.

Cause: Management failed to submit proper documentation and justification to support a reimbursement of a payment to a Las Vegas hotel.

Criteria: Proper financial management practices as promulgated by the Emergency Services Districts Operating Guide.

Recommendation: Proper internal controls need to be established in the District to ensure there is proper back up and support for reimbursable expenditures. If proper documentation is not present, the expense should not be reimbursed.

Management’s Response: We concur with the above finding. Effective August 8, 2012, (to be revised November 14, 2012) the District instituted a financial policies and procedures manual. Under the policies and procedures, all employees and volunteers will receive a per diem allowance for travel related expenses. A waiver for the receipt of per diem funds will be prepared by the Department Chief which includes the total per diem amount per participant (per diem rate times the number of days) and the names of the participants. The Department Chief will sign and issue checks to the participants based on the information presented on the waiver. Upon receipt of the check, the participant will sign the waiver acknowledging the receipt of per diem funds and a copy of the waiver will be filed by the District Administrator.

Finding #2011-6

Condition: Questioned costs. In April, 2011, there was a reimbursement to Clint Fire Department for a 941 payroll deposit. The reimbursement was in the amount of $735.01 and appears to be a duplicate reimbursement of the taxes.

Effect: The District overpaid the reimbursement for payroll taxes.

Cause: Management normally submits reimbursements for payroll taxes along with the salary payments to employees. In this case, management also submitted the 941 form for reimbursement.

Criteria: Proper financial management practices as promulgated by the Emergency Services Districts Operating Guide.

Recommendation: Salary and tax reimbursements should not be from 941 tax forms.

Management’s Response: We concur with the above finding. Effective August 8, 2012, (to be revised November 14, 2012) the District instituted a financial policies and procedures manual. The manual documents the procedures for verification, approval, and payment of department expenses. All questioned costs will be promptly documented and reported to the board Treasurer by the District Administrator. If unallowable, inaccurate, or duplicate charges are included in a reimbursement request, the amount will be deducted from the department’s reimbursement and a recalculated total will be noted on the reimbursement cover sheet. In addition, the Board of Commissioners will examine and approve all department requests for reimbursement at the monthly meeting prior to replenishing the departments’ operating funds.

All accounting for payroll activities will be centralized at the District level. Policies and procedures for time sheets, payroll processing and the payment of payroll taxes are stated in the financial policies and procedures manual. Therefore all payroll reports supporting payroll tax liabilities will be generated at the District level.

Finding #2011-7

Condition: The San Elizario Volunteer Fire Department does not submit invoices for reimbursement on a timely basis and there is often no proof of payment or attached invoices. A reimbursement request for fuel for $14,541.32 on August 23, 2011 had no detail attached and was paid from a statement balance.

Effect: The District reimbursed fuel purchases without proper documentation.

Cause: Management did not submit backup detail of the fuel purchases.

Criteria: Proper financial management practices as promulgated by the Emergency Services Districts Operating Guide

Recommendation: Policies and procedures should be initiated whereby Volunteer Fire Departments submit proper documentation on expense reimbursements.

Management’s Response: We concur with the above finding. Effective August 8, 2012, (to be revised November 14, 2012) the District instituted a financial policies and procedures manual. The manual documents the procedures for verification, approval, and payment of department expenses. It is now the policy of the District that charges should be submitted for reimbursement no more than three months subsequent to the date that the expenditure was incurred. It is the responsibility of the Administrative Assistants to submit the reimbursement requests in a timely manner. If in any event, expenditures are submitted for reimbursement more than three months subsequent to the date the cost was incurred, those expenditures will be submitted with a separate expense summary sheet and include an explanation as to why the expenditure was not submitted on a timely basis. Expenditures that are not submitted timely will not be reimbursed until the District Administrator has had ample time to research the expenditure to ensure that it is valid. An original vendor invoice is preferred. Generally, monthly statements or hotel confirmations will not constitute supporting documentation. If a statement is submitted, for example, a utility statement, only the current charges will be reimbursed. Balance forward amounts will not be reimbursed.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS
(CONTINUED)

Finding #2011-8

Condition: In reviewing the bank statements and financial records of the Volunteer Fire Departments it should be noted that the departments do not have journals, check registers, ledgers or reports necessary to determine financial position or results of operations. Budgets at the department level do not exist. There is no proof of reconciled bank statements. We were unable to locate copies of nonprofit tax returns.

Effect: The District cannot be assured that reimbursement amounts are properly posted and accounted for. The District cannot obtain any reasonable assurance that taxpayer funds are adequately safeguarded.

Cause: Management of the departments have not submitted adequate books, records to the District for review.

Criteria: Proper financial management practices as promulgated by the Emergency Services Districts Operating Guide.

Recommendation: Policies and procedures should be initiated whereby Volunteer Fire Departments submit adequate reports and records for review by the District. Contracts between the District and the departments should be reviewed and modified where necessary to require that the departments submit a proposed budget and monthly receipts and expenditures report compared against the budgeted amounts. Each Volunteer Fire Department should submit an annual independent audit. This is in accordance with the Emergency Services Districts Operating Guide distributed by the Texas Department of Rural Affairs at www.tdra.state.tx.us.

Management’s Response: We concur with the above finding. Effective August 8, 2012, (to be revised November 14, 2012) the District instituted a financial policies and procedures manual. The manual documents the procedures for maintenance of the general ledger and chart of accounts, cash and cash management, cash disbursements, purchasing, payroll and related polices, budgeting, fixed asset management, and notes payables. The procedures in the manual will be strictly adhered to. The District will also ensure that independent annual audits are performed and obtained from each individual department.

In addition, Form 990 for Fabens has been completed and submitted. We are in the process of reapplying for tax exempt status for Clint and Vinton as well as filing the late returns.

The District also has contracted for the services of external accounting firm to train and assist in the day to day accounting duties. All departments will be required to maintain their books on “QuickBooks”. Each department will have the same chart of accounts and be able to produce the same financial reports on a monthly basis. Such reports will be presented to the Board of Commissioners every month.

Currently, Department Chiefs have developed a budget for each of their respective departments based on each department’s size and needs. The budgetary process has been implemented and is currently in the final stages of completion. Once finalized, the budget for each Department will be inputted into “QuickBooks” and a budget to actual report will be generated on a monthly basis. Significant variances will require explanation from the Department Chief.


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Finding #2011-9

Condition: After reviewing the contractual agreements between the individual Volunteer Fire Departments and the District, it was noted that the departments were not abiding by certain financial reporting obligations required to be provided to the District. It was also noted that there were no approved budgets submitted by any of the departments. Therefore, reimbursements could not be compared to a set allowable amount. This, in essence, provides the Departments a “blank check book” to obtain reimbursements.

Effect: Since the District does not receive proper financial information from the departments, the District cannot evaluate whether the distribution of taxpayer funds in the form of reimbursements from the District to the departments are properly used and accounted for.

Criteria: The following contractual provisions were not complied with:

Within ten (10) days following the end of each reporting period the following reports should have been submitted:

1. Section 12 (a). Reports. No monthly reports indicating receipts including budget accounts were received by the District from the departments.

Within one-hundred-twenty days (120) after the end of the fiscal year the following report should have been submitted:

1. Section 12 (b). No complete financial report showing all financial data, statements and reports required to comply with generally accepted auditing standards and an administrative report giving the total of all activities of the year was received from any of the departments. There was no indication that an independent certified public accountant prepared a financial report for any of the departments.

Recommendation: The District should take immediate steps to ensure the departments have qualified accounting personnel located at the department level to ensure the required financial reports can be provided. The District, as a first step, should hire a qualified accountant to oversee all financial operations at the District and department level. The accountant would be charged with the responsibility of setting up the proper financial reporting systems at the department level. The accountant should be able to enforce and monitor the reporting provisions as spelled out in the contracts with each department. Only then can the District be assured taxpayer funds are properly accounted for and used properly.

Management’s Response: We concur with the above finding. Effective August 8, 2012, (to be revised November 14, 2012) the District instituted a financial policies and procedures manual. In addition, Administrative Assistants have been hired at all of the District’s departments to maintain the general ledgers and chart of accounts at each individual department and to ensure the department is abiding by the policies and procedures outlined in the financial policies and procedures manual.

Also, see response for finding 2011-08 on the preceding page 48. Response is also appropriate for this finding.
Finding #2011-10

Condition: Management of the District, after reviewing an audit completed by the El Paso County Auditor’s Office on December 20, 2011, requested a specific audit of one of the individual Volunteer Fire Departments, the San Elizario Volunteer Fire Department. Management of the District contracted with Schmid, Broaddus, Nugent, and Gano, P.C. to do the specific audit. Their report dated August 6, 2012 is summarized as follows:

1) Expenditures submitted for reimbursement without sufficient supporting documentation, including expenditures submitted without receipts or invoices amounting to $27,825.58.

2) Unsupported balances forward on invoices or statements submitted for reimbursement amounting to $15,499.01. These items have not been specifically identified as duplicate payments. However, the payment in a balance forward statement results in a potential for duplication of payment.

3) Invoices submitted and reimbursed on multiple occasions amounting to $33,799.88.

4) Duplicate utility payments due to balances carried forward amounting to $6,732.95. These items have been specifically identified as duplicate payments.

5) Expenditures reimbursed for items with questionable business purposes amounting to $13,871.54.

6) Expenditures for merchandise or services billed or delivered to 12538 Camino De La Rosa amounting to $34,973.52. To our knowledge, the San Elizario’s only physical address is on the corner of San Elizario Road and Socorro Street.

7) Expenditures for merchandise or services billed or delivered to any addresses other than San Antonio Road or Camino De La Rosa amounting to $13,329.02.

8) Expenditures incurred in excess of six months prior to submission of request for reimbursement amounting to $12,691.01. We consider these items to be at risk for having been reimbursed on one or more occasions outside the time period covered by this engagement.

Effect: The District reimbursed the San Elizario Volunteer Fire Department without sufficient supporting documentation, paid for amounts submitted as statements, and paid for duplicate amounts, which all lead to the possibility of misuse of District funds.

Cause: Management of the Volunteer Fire Department submitted reimbursement requests without sufficient supporting documentation as well as submitting reimbursement requests for duplicate payments.

Criteria: Proper financial management practices as promulgated by the Emergency Services Districts Operating Guide.
Finding #2011-10 (Continued)

Recommendation: Proper internal controls need to be established in the District to ensure there is proper back up and support for reimbursable expenditures. If proper documentation is not present, the expense should not be reimbursed.

Management’s Response: We concur with the above finding. Effective August 8, 2012, (to be revised on November 14, 2012) the District instituted a financial policies and procedures manual. The manual documents the procedures for verification, approval, and payment of department expenses. All questioned costs will be promptly documented and reported to the board Treasurer by the District Administrator. If unallowable, inaccurate, or duplicate charges are included in a reimbursement request, the amount will be deducted from the department’s reimbursement and a recalculated total will be noted on the reimbursement cover sheet. In addition, the Board of Commissioners will examine and approve all department requests for reimbursement at the monthly meeting prior to replenishing the departments’ operating funds.

The San Elizario Volunteer Fire Dept has provided additional documentation to support expenditures not previously submitted to the District. Such information is currently being reviewed by an external accounting firm. The results of that review are required to be communicated to the Board of Commissioners in a written report on November 14, 2012.

It should be noted that the areas of concern listed on the preceding page (items 1 through 8) precipitated the Board’s concern and motivation for generating and implementing the financial policies and procedures manual. It was also at the Board’s direction that the need for Administrative Assistants for each department was aggressively addressed and implemented. Continued efforts will be made to review each of the remaining departments during fiscal year ending 2013 to assure that all departments are complying with the current financial policies and procedures. In addition, at the October 10, 2012 Board meeting, the Board of Commissioners required that two additional departments be reviewed this year, and such reviews will continue, two departments at a time, until all departments have been reviewed. The reviews will include the fiscal years ended 2010 and 2011. If any problems are noted, fiscal year ended 2009 will also be reviewed.
Finding #2011-11

Condition: Three vehicles were sold during the fiscal year ended September 30, 2011. The vehicle sales were authorized by the Fire Chiefs of the respective Volunteer Fire Departments which they serve. One sale was for a 2006 Dodge Minivan vehicle authorized to be sold by the Clint Volunteer Fire Department amounting to $5,800. The second sale was for a 2003 Chevrolet Suburban vehicle authorized to be sold by the Montana Vista Volunteer Fire Department amounting to $5,000. The third sale was for a 2000 Ford Super Duty Diesel authorized to be sold by the Socorro Volunteer Fire Department amounting to $4,200. Minutes of Board meetings indicate only the sale of the Montana Vista Fire Department vehicle.

Effect: The sale of excess vehicles, which have not been advertised to the public, provides benefits to individuals other than to the public taxpayers who are not aware of the asset sale.

Cause: The District doesn’t have any policies regarding the sale of excess vehicles advertised to be sold at public auctions.

Recommendation: Policies and procedures regarding the public auction of excess vehicles should be prepared, implemented, and followed.

Management’s response: We concur with the above finding. Effective August 8, 2012, (to be revised on November 14, 2012) the District instituted a financial policies and procedures manual. Fixed asset policies documented in the manual dictate that District-owned capital assets may not be disposed of by any department without the prior approval of the Board of Commissioners. If any department wishes to sell or otherwise dispose of any capital asset, the Department Chief will present a request for disposition to the Board of Commissioners.

In addition, Chapter 11 of the El Paso County District #2 S.O.G. Manual, “District Owned Vehicles”, outlines how to dispose of fixed assets in section 5, Disposal of District Owned Vehicles”. The sale of the vehicle does not rest with the Department, but rather with the District. And as such, title to the vehicle is retained at the District level. Therefore, all disposals are made at the District level.
COMMISSIONERS COURT
COMMUNICATION

SUBJECT: Receive a presentation from the Emergency Service District (ESD) #2 on the Managements’ response to the findings and questioned costs in the FY 2011 audit.

BACKGROUND/DISCUSSION OF TOPIC: To include statutory requirement, operational impact, or performance goal.

El Paso County ESD #2’s Commissioners Jerry Knotts and Pamela Padilla will present to Commissioners Court the Managements’ response to the findings and questioned costs in the ESD #2’s FY2011 audit prepared by Sammy Johnson, CPA.

FISCAL IMPACT: N/A

PRIOR COMMISSIONERS COURT ACTION (IF ANY):

On 24 September 2012 Commissioners Court discussed to accept the ESD #2’s 2011 Audit (Addendum Item #3) which was granted and the Court recommended that the Board answer and suggest remedies for the deficiencies.

RECOMMENDATION:

COUNTY ATTORNEY APPROVAL

The attached document has been given legal review by the El Paso County Attorney’s Office on behalf of the County of El Paso, its officers, and employees. Said legal review should not be relied upon by any person or entity other than the County of El Paso, its officers, and employees.

COUNTY ATTORNEY:
LEGAL REVIEW:
LEGAL REVIEW NOTES (If Applicable):
DATE:

SUBMITTED BY: Rebecca Terrazas, Emergency Service District #2, District Administrator (915-851-0304)