

**ROSS VALLEY FIRE DEPARTMENT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

FOR THE YEAR ENDED JUNE 30, 2017

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**ROSS VALLEY FIRE DEPARTMENT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For The Year Ended June 30, 2017

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MEMORANDUM ON INTERNAL CONTROL

To Board of Directors of
the Ross Valley Fire Department
San Anselmo, California

In planning and performing our audit of the basic financial statements of the Ross Valley Fire Department (Department) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 Department's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 consider the deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
November 29, 2017

ROSS VALLEY FIRE DEPARTMENT

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCY

2017-01 - Service Organization Monitoring

Criteria: The Department contracts with the Town of San Anselmo (Town) for accounting services. Although the Town manages the day-to-day activities, it is still the Department's responsibility to ensure that its accounting records are accurate.

Condition: We noted the following during our audit:

Lack of Review by a Second Employee

In the following areas, while the Department staff is involved in reviewing some of the source documents, they do not review the accounting records once the transactions are recorded in the Department's books:

- Journal entries - the Director of Finance & Administrative Services of the Town prepares journal entries and posts them to the accounting system. Although the Department staff reviews the journal entries indirectly through the review of monthly financial reports, individual journal entries are not reviewed and traced to supporting documents.
- Investment reconciliation - the Department only has one investment in the Local Agency Investment Fund (LAIF), with limited activities. Department staff reviews the LAIF statement monthly at which point the Town performs the reconciliation. There is no review of the reconciliation by another party.
- Bank reconciliations - the Director of Finance & Administrative Services of the Town prepares the reconciliation monthly. There is no review of the reconciliation by another party.

Lack of Evidence of Review of Accounting Records by Department Staff

For payroll runs, the Battalion Chiefs of the Department enter data into the Emergency Reporting System. After the Accounting/Benefits Technician of the Town verifies the information in the Emergency Reporting System, she enters the payroll data into the accounting system. The Director of Finance & Administrative Services of the Town reviews payroll runs. The Town then sends copies of the detailed payroll register, paper checks, and direct deposit advice forms to the Department. However, we could not obtain audit evidence that the Department staff reviews the detailed payroll register by comparing that to the data in the Emergency Reporting System.

Potential Effect: They are as follows:

Lack of Review by a Second Employee

Without a proper review by a second employee, errors may go undetected.

ROSS VALLEY FIRE DEPARTMENT
MEMORANDUM ON INTERNAL CONTROL
SCHEDULE OF SIGNIFICANT DEFICIENCY

Lack of Evidence of Review of Accounting Records by Department Staff

Monitoring is an important component of internal controls as it involves evaluating the effectiveness of controls on an ongoing basis and taking remedial actions when necessary. Without physical evidence showing that a review has taken place, it is difficult for the Department to ensure that a key control is executed, review of payroll register in this case. Therefore, the effectiveness of such control decreases.

Cause: Before March 2016, the Department performed its own accounting functions. When these functions were transferred to the Town, policies and procedures have not been updated completely to reflect the outsourcing of the accounting functions.

Recommendation: We recommend the following:

Lack of Review by a Second Employee

A Department staff should review journal entries, investment reconciliations and bank reconciliations timely prepared by the Town. These reviews should be documented to allow for monitoring.

Lack of Evidence of Review of Accounting Records by Department Staff

After each payroll run, the Department staff should review the payroll register and reconcile it to the information in the Emergency Reporting System. Such review should be documented to allow for monitoring.

Management Response: The Department is currently in the process of developing new policy and procedures to meet or address the intent of these recommendations.

Lack of Review by a Second Employee

Fire Chief or his/her designee will review and sign off on journal entries, investment reconciliations, and bank reconciliations.

Lack of Evidence of Review of Accounting Records by Department Staff

Fire Chief or his/her designee will review and signoff on payroll register for head count and total hours that has been paid for each pay code category for reasonableness, e.g. total hours for overtime code OT40 or OT 56, etc.

ROSS VALLEY FIRE DEPARTMENT

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2017-02 - Capital Assets Policy Update

The Department has a capitalization threshold of \$500. While it is essential to capitalize capital expenditures, a lower threshold means that more items are capitalized. Hence, resources are spent in keeping track of these items. To improve efficiency of the Department's closing of its books at year end, we recommend that the Department consider raising its threshold.

Management Response: The Department will consider and implement appropriate capitalization threshold in fiscal year 2017-18.

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MEMORANDUM ON INTERNAL CONTROL
SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

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

Effective in fiscal year 2017-18:

GASB 75 – Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB 81 – Irrevocable Split-Interest Agreements

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB 85 – Omnibus 2017

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB 86 – Certain Debt Extinguishment Issues

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

ROSS VALLEY FIRE DEPARTMENT
MEMORANDUM ON INTERNAL CONTROL
SCHEDULE OF OTHER MATTERS

Effective in fiscal year 2018-19:

GASB 83 – Certain Asset Retirement Obligations

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

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ROSS VALLEY FIRE DEPARTMENT

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2016 - 01: Formal Financial Policies and Procedures Performed by the Town of San Anselmo

Criteria: Formal financial policies and procedures are adopted to provide guidance on how to adhere and maintain proper internal controls over various financial transactions and reconciliations. This includes, but is not limited to, procedures over bank reconciliations, payroll registers, check registers, and cash receipt reconciliations.

Condition: Starting March 2016, the Town of San Anselmo assumed the accounting responsibility over the Department. The joint effort was intended to begin July 1, 2016, however, due to an unforeseen circumstance, the Town began providing their accounting services earlier than anticipated. Transaction processes such as bank reconciliations, accounts payable and payroll, transferred to the Town. While testing the internal controls over the various transaction cycles, we noted a review process was performed by both the Town and the Department. However, because of the sudden transition in responsibilities, no formal financial policy and procedures were documented set in place that outlines the expectations of services the Town was to provide the Department.

Potential Effect: Although the Town of San Anselmo is performing many of the Department's financial functions, outlining a formal financial policy and procedure ensures what controls are to be in place and what expectations are outlined by both the Department and the Town.

Cause: The Town of San Anselmo began performing the financial operations for the Department in March 2016, prior to the anticipated turnover, which did not allow for formal documentation of financial policies and procedures to be put in place that align with the Department's current transactions and the Town's accounting services responsibilities.

Recommendation: We recommend that the Fire Department, along with the Town of San Anselmo, establish policies and procedures to ensure compliance with the Department's current practice.

Current Status: See Significant Deficiency 2017 - 01

ROSS VALLEY FIRE DEPARTMENT

MEMORANDUM ON INTERNAL CONTROL

STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2016 - 02: Compliance with Purchasing Policy

Criteria: The Department's Purchasing Policy requires staff to submit a purchase order for approval for expenditures over \$50.

Condition: While testing of disbursements for compliance with the Department's Purchasing Policy, we noted that 10 disbursements did not appear to have an approved purchase order. Additionally, per conversation with Department staff, it does not appear the Department has a formal policy in regards to many of its financial operations, due to the outsourcing of financial operations to the Town of San Anselmo.

Potential Effect: Despite the Town of San Anselmo performing accounting and financial duties for the Department in accordance to the Town's own policies, the Department should have adhered to their purchasing policy leading up to the transferring of duties to the Town of San Anselmo.

Cause: The Town of San Anselmo began performing accounting and financial duties for the Department in March 2016, and the Town is unaware of the Department's purchasing policy.

Recommendation: We recommend the Department draft and approve by way of the Board of Directors, formal, written policies for the Department's financial operations.

Current Status: According to the Department's Account Process and Procedures, revised March 2017, purchase orders are no longer required.

2016 - 03: Segregation of Duties in Cash Disbursement Procedures

Criteria: The employee who approves Cal card disbursements should not be able to approve their own disbursement transaction.

Condition: Pursuant to the testing of Cal card disbursements, we noted 2 transactions that had been approved by the card-holder.

Potential Effect: Although the procurement card's billing statements are submitted to the Administrative Assistant for processing, the approver whom signs off on review and approval should not be one of the employees also making purchases on the card.

Cause: Despite the Town of San Anselmo performing financial operation duties for the Department, the segregation of duties for approving Cal card statements is not a current practice.

Recommendation: We recommend any employee involved with reviewing and approving the Cal card statements should not review their own statements.

Current Status: Not implemented – the condition remained in fiscal year 2016-17.

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STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES

2016 - 04: Proper Approval of Timecards

Criteria: All timecards should be properly signed by upper management or other personnel to review for unusual time and overtime, including the Fire Chief.

Condition: Pursuant to the testing of the Department's payroll, it was noted that one time card was not signed by another employee. The Fire Chief is not exempt from such approval and should also obtain a signature from other management.

Potential Effect: Lack of review and approval of timecards increases the possibility of unauthorized payroll such as unapproved overtime.

Cause: Appears to be an oversight.

Recommendation: We recommend all timecards are review and approved by appropriate management.

Current Status: The Department hired a new Fire Chief in August 2017. Since then, the Fire Chief filled out a timecard, which is reviewed by the Executive Officer.

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REQUIRED COMMUNICATIONS

To the Board of Directors of
the Ross Valley Fire Department
San Anselmo, California

We have audited the basic financial statements of the Ross Valley Fire Department (Department) for the year ended June 30, 2017. Professional standards require that we communicate to you the following information related to our audit under generally accepted 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 the Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

The following Governmental Accounting Standards Board (GASB) pronouncements became effective, but did not have a material effect on the financial statements:

GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

GASB 74 - Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans

GASB 77 - Tax Abatement Disclosures

GASB 80 - Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14

GASB 82 - Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the Department 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.

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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(s) affecting the Department's financial statements was:

- *Estimated Fair Value of Investments:* As of June 30, 2017, the Department held approximately \$1.2 million of cash and investments, as measured by fair value as disclosed in Note 2. Fair value is essentially market pricing in effect as of June 30, 2017. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2017.
- *Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 8 to the financial statements and are based on accounting valuations prepared by the California Public Employees Retirement System and GASB 67/68 Pension Accounting Reports prepared by a consultant, which are based on the experience of the Department. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Board of Directors.

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 November 29, 2017.

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 Department’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 Department’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

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

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.

Maze & Associates

Pleasant Hill, CA
November 29, 2017

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