



Sacramento Metropolitan Fire District

FINANCE DIVISION ORGANIZATIONAL REVIEW

July 2011

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Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review



Sacramento Metropolitan Fire District FINANCE DIVISION ORGANIZATIONAL REVIEW

TABLE OF CONTENTS

Report Purpose	1
Summary of Findings and Recommendations	1
Challenges Facing Metro Fire's Financial Operations	2
Findings and Recommendations	
Staffing	3
Organization	5
Training	6
Financial Management System	7
Operations	8
Financial Reporting	8
Long-Term Financial Planning	9
Budget	10
Fiscal Policies	11
Implementation Plan	13
Conclusion	14

APPENDIX

Report Findings Supporting Documentation

A. Comparative Staffing Benchmarks	A-1
B. Financial Management System	B-1
C. Operations Review	C-1

Background Information

D. Agency Overview	D-1
E. Auditors' Report to the Board	E-1
F. Workslope and Methodology	F-1
G. Consultant Qualifications	G-1

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July 15, 2011

Sacramento Metropolitan Fire District FINANCE DIVISION ORGANIZATIONAL REVIEW

REPORT PURPOSE

This organizational review of the Sacramento Metropolitan Fire District's (Metro Fire) Finance Division is largely in response to the findings presented in the August 2010 report to the Board of Directors from its auditors (Richardson and Company). While the auditors provided detailed recommended actions for each of their findings, their overarching recommendations were to add an accounting manager or controller with significant accounting experience to assist the Chief Financial Officer; and to add and/or provide more training to existing accounting staff to improve the overall understanding of generally accepted accounting principles within the organization. (The full report to the Board of the auditors' findings and recommendations is provided in the Appendix).

Based on this recommendation, the Board approved two added positions in the 2010-11 Budget: Controller and Accounting Specialist. However, before filling these two new positions and committing to significant long-term staffing costs, Metro Fire wanted to be sure that this is the best solution to the financial management challenges facing it. Accordingly, in April 2011, Metro Fire contracted with William C. Statler to:

- Evaluate the policies, practices, workload and staffing of the Finance Division.
- Make recommendations as appropriate regarding the new positions as well as other organizational matters that may arise in the course of this work.

This report presents the consultant's findings and recommendations. It is followed by an Appendix that includes added detail about the findings, workscope and consultant qualifications for this evaluation.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Short Story. As detailed later in this report, there are ten key findings and recommendations:

FINANCE DIVISION ORGANIZATIONAL REVIEW

- ❶ Staffing: Fill the two new vacant positions.
- ❷ Organization: Reorganize around two main groups – accounting and payroll.
- ❸ Training: Provide training for both financial and non-financial managers.
- ❹ Financial Management System: Become fiscally independent from the County.
- ❺ Operations: Streamline purchasing, accounts payable and payroll procedures while retaining appropriate internal controls.
- ❻ Financial Reporting: Prepare annual financial reports in accordance with “best practices” and provide more meaningful interim reports.
- ❼ Long-Term Financial Planning: Prepare five year fiscal forecast.
- ❽ Budget: Move from a line-item to program budget.
- ❾ Fiscal Policies: Develop and implement formal fiscal policies.
- ❿ Implementation: Prepare detailed implementation plan.

CHALLENGES FACING METRO FIRE’S FINANCIAL OPERATIONS

The findings and recommendations presented in this report are in response to three key challenges facing Metro Fire’s financial operations:

Late Audits. Audited financial statements were not prepared for fiscal years 2005-06, 2006-07, 2007-08 and 2008-09 until August 2010. The generally accepted standard for the issuance of audited financial statements is within 180 days after fiscal year-end. At this point, audited financial statements have not yet been issued for 2009-10, although draft statements have been prepared and should be issued in the near future. Along with the lack of fiscal transparency, long delays in issuing audited financial statements present a significant *potential* for misstatements of fiscal condition and for financial improprieties to have occurred without detection.

Adverse Audit Opinion. The audit reports for fiscal years 2005-06 through 2008-09 received an adverse opinion due to an incomplete and out-of-date capital asset listing and lack of physical inventories of materials and supplies. This means that Metro Fire’s financial statements for these years do not fairly present its financial condition and results of operations in conformance with “generally accepted accounting principles.”

Internal Control Weaknesses and Deficiencies. As set forth in the Appendix, the auditors noted seven material internal control weaknesses and six significant deficiencies in their August 2010 report to the Board. They also made recommendations on six other issues in their more detailed follow-up letter to management. I concur with the auditors’ recommendations, and accordingly, this report supplements and does not replace them.

The good news is that Metro Fire is making progress in responding to the adverse opinion it received on its last four audits. In reviewing the draft financial statements for 2009-10, it appears that the capital asset qualification will be removed; and based on discussions with the auditors, it is likely that the inventory qualification will be removed in the 2010-

FINANCE DIVISION ORGANIZATIONAL REVIEW

11 financial statements. This means that in the near future, Metro Fire should have “clean” audited financial statements.

On the other hand, significant work remains in implementing the other audit recommendations. The following ten findings and recommendations, presented in priority order, provide guidance on staffing, organization, training, operations and other fiscal matters that will better position Metro Fire in addressing the auditors’ concerns as well as in moving forward on other financial management improvements.

FINDINGS AND RECOMMENDATIONS

❶ Staffing: Fill the two new vacant positions

Along with the proposed transfer of a Payroll Specialist scheduled for July 1, 2011, it is recommended that Metro Fire fill the two positions approved in the 2010-11 Budget: Controller and Accounting Specialist. This review confirms the auditors’ findings that many of the financial management challenges facing Metro Fire are simply due to the lack of adequate staffing. As outlined below, there are operational improvements that will result in higher productivity and greater efficiency in finance operations while still retaining appropriate internal controls. However, even with these, added staffing is required. There are two factors underlying this finding:

Existing Unmet Needs. The first is simply the fact of existing unmet needs: until the recent addition of temporary staff, reconciliations between the County system and Metro Fire’s in-house Eden system were not being performed; monthly and annual closing entries are not being made by staff; and implementing the auditors’ internal control recommendations is still a work-in-progress.

Staffing Benchmarks with Comparable Agencies. The need for added staffing is underscored by the results of “benchmarking” Finance staffing in Metro Fire with comparable agencies. Appendix A details the approach taken in selecting comparable agencies and the results of the “benchmarking” analysis. As discussed in Appendix A, the five selected agencies share the following characteristics with Metro Fire:

- Independent, fire-only special districts
- Not governed by a City Council or County Board of Supervisors: has an independently appointed or elected Board of Directors
- Multi-million budgets
- Multiple fire stations
- While there may be volunteers, primarily staffed by full-time professional firefighters

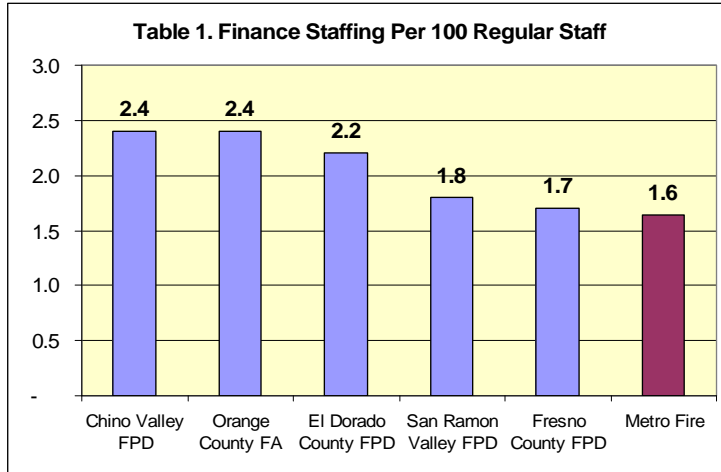
After extensive research in identifying comparable agencies, including contact with the Fire Districts Association of California, the following five agencies emerged as the best comparison agencies from a finance organization perspective (staffing, budget and population information for each of them is provided in Appendix A): Chino Valley Fire Protection District; El Dorado County Fire Protection District; Fresno County Fire

FINANCE DIVISION ORGANIZATIONAL REVIEW

Protection District; Orange County Fire Authority; and the San Ramon Valley Fire Protection District.

As reflected in the sidebar charts, even with the addition of two new positions and the transfer of a Payroll Specialist, Metro Fire's Finance staffing will be among the lowest of the comparable agencies when measured against the benchmarks of:

- Finance Staffing per 100 Regular Employees
- Finance Staffing per \$100,000 of Budget
- Finance Staffing per 100,000 Service Population



As shown in **Table 1**, including the three added staff members (two new positions plus the transferred Payroll Specialist effective July 1, 2011), Metro Fire will still have the lowest Finance staffing level of the benchmark agencies compared with the number of regular employees supported.

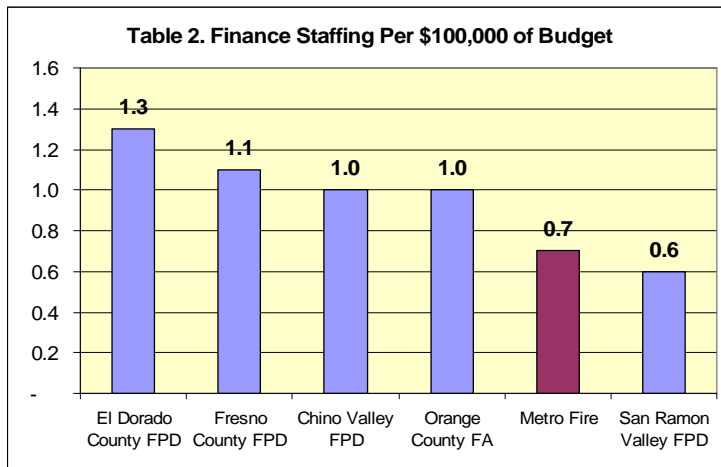
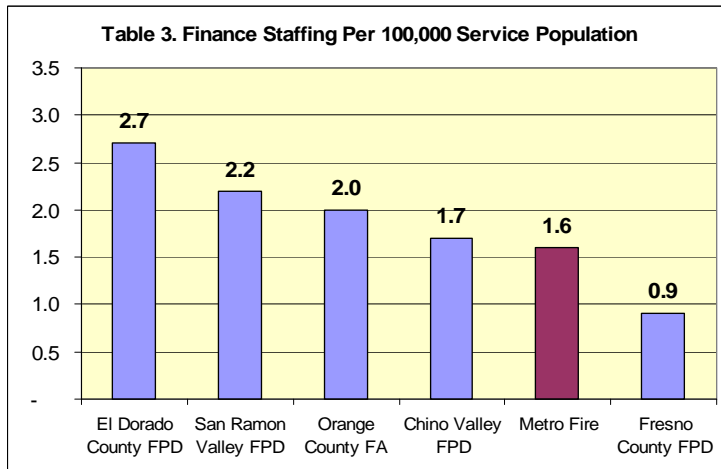


Table 2 shows that Metro Fire will have the second lowest level of Finance staffing (but not by much) of the benchmark agencies compared with expenditures by each organization.



Lastly, **Table 3** shows that Metro Fire will also have the second lowest of level of Finance staffing of the benchmark agencies compared with the population served by each agency.

Stated simply, the challenges facing Metro Fire's Finance operations are not surprising given current staffing levels: even with the proposed additions, it will still have very lean staffing compared with similar organizations.

FINANCE DIVISION ORGANIZATIONAL REVIEW

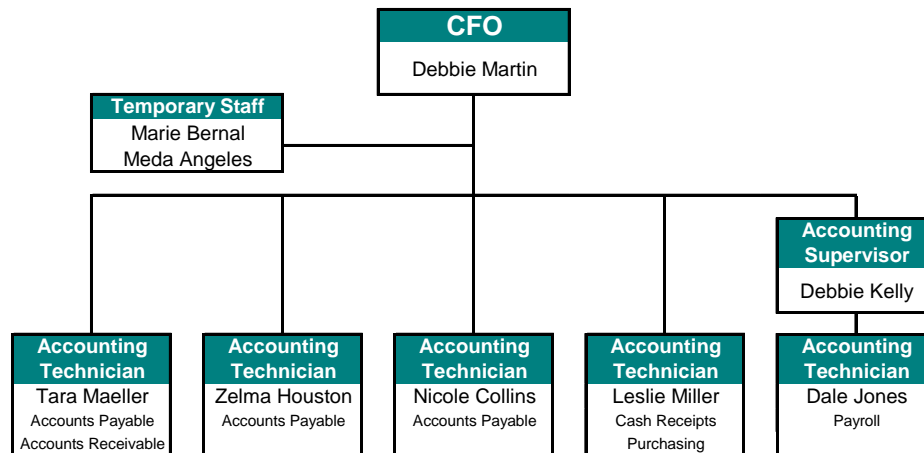
In summary, without the two new positions, Metro Fire will not be able to address the internal control and other operational weaknesses identified by the auditors as well as in this report.

② Organization: Reorganize around two main groups – accounting and payroll

While added resources are required in addressing the Finance Division’s operational needs, it is equally important that these added resources be organized effectively. The following describes the current and proposed Finance Division organization.

Current Finance Division Organization. Table 4 below shows the current organization (as it existed prior to July 1, 2011), which has seven regular staff members and two temporary accountants. The two temporary accountants report directly to the Chief Financial Officer (CFO) as well as four Accounting Technicians that are primarily responsible for day-to-day accounting activities such as accounts payable, accounts receivable and cash receipts. The Accounting Supervisor, who is primarily responsible for payroll, also reports to the CFO. The fifth Accounting Technician, who is assigned to payroll, reports to the Accounting Supervisor.

Table 4. Existing Finance Division Organization



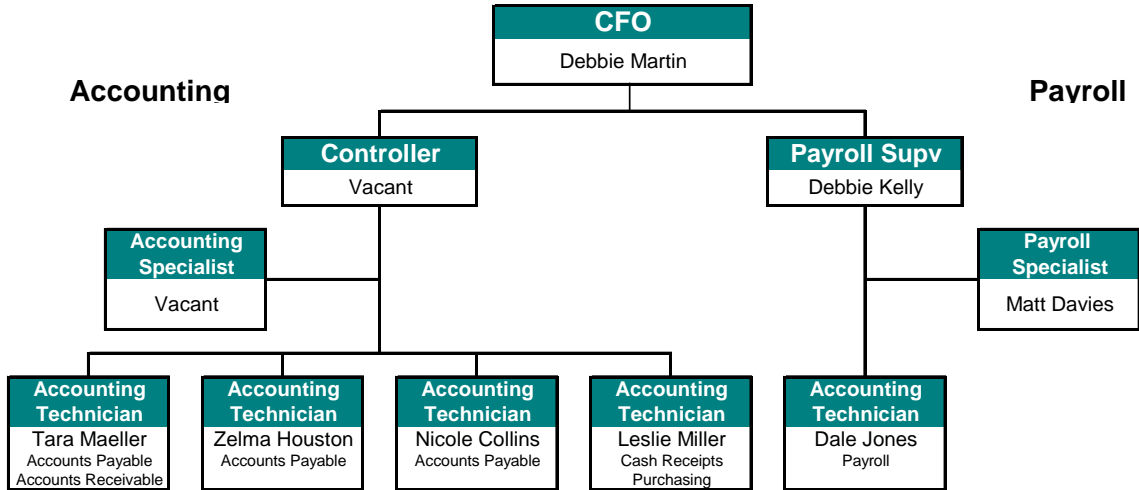
As reflected in this organizational framework, the Accounting Supervisor in fact serves as the Payroll Supervisor. Given the significance of staffing costs for Metro Fire, which account for 90% of its \$148.3 million budget, focusing supervisory and technical staff on payroll in this manner is wholly appropriate (and as noted below, one of the recommended changes is to re-title this position to Payroll Supervisor). On the other hand, excluding the temporary staffing, the CFO is the only financial professional in the organization; and given the relatively wide span of control with seven direct reports to the CFO, this is a key factor underlying the fiscal management challenges facing Metro Fire.

Recommended Finance Division Organization. The recommended organization builds on the strengths of the current organization while responding to the challenges facing it. As reflected in Table 5 below, it retains the existing payroll organization with the addition of the planned transfer of the Payroll Specialist. As reflected in both an

FINANCE DIVISION ORGANIZATIONAL REVIEW

organizational survey and follow-up interviews (which are discussed in Appendix F), the payroll function is performing well; and by largely retaining its current organization, this allows the new accounting group to focus on the areas of primary concern. The Controller heads up the Accounting group, with the Accounting Specialist and four Accounting Technicians reporting to this position. This will result in a manageable span of control and allow limited resources to be focused on the areas most in need of improvement.

Table 5. Recommended Finance Division Organization



No compensation or exempt-status changes will be needed to implement this new organization. However, minor changes in the Controller, Accounting Specialist and Accounting Supervisor job descriptions will be needed. (As noted above, the most significant is re-titling the Accounting Supervisor to Payroll Supervisor to better reflect current duties, not new ones.)

③ Training: Provide training for both financial and non-financial managers

In order for the added staffing and revised organization to fully achieve intended results, adequate ongoing training for both financial and non-financial managers is essential.

Financial Managers. Fortunately, there are number of low and no-cost training programs available from the California Society of Municipal Finance Officers (CSMFO). These include an excellent Weekend Training program, from which the CFO, Controller and Accounting Specialist would especially benefit. Along with this, no (or very low) cost CSMFO training and networking opportunities include:

- Webinars on “hot topics” as well as ongoing financial management training (no cost)
- Peer coaching program (no cost)
- Local CSMFO chapter meetings (very low cost)
- List Serve (no cost)

FINANCE DIVISION ORGANIZATIONAL REVIEW

The CSMFO also sponsors very low cost seminars in the Sacramento area on an ongoing basis in beginning and intermediate local government accounting, as well as other topics such as effective presentation of financial information and development of fiscal policies.

Finance managers should be encouraged to participate in these no or very-low cost programs. Additionally, as resources permit, training provided by the CSMFO at its annual conference is also an excellent value, as well as the ongoing training programs offered by the Government Finance Officers Association (GFOA). Of special value to the CFO is the GFOA's Advanced Government Finance Institute (held annually in the summer), which focuses on strategic leadership skills for senior financial managers.

Training for the technical staff in the Finance Division should also be provided, although this can largely be done in-house or through the no or very low cost programs noted above.

Non-Financial Managers. It is also important to provide ongoing financial management training for managers outside of the Finance Division, who also play an essential role in ensuring effective stewardship of the public resources entrusted to Metro Fire. This could include no or very low cost programs such as:

- General local government financial management concepts (the County of Humboldt recently contracted for a very low cost program like this for its non-financial managers).
- Standard “new manager” financial management package and follow-up training.
- Ongoing training on fiscal procedures that would be provided by Finance Division staff such as accounts payable, purchasing, using on-line access to the finance system, preparing bid documents and budgeting (“class a month”).

Stated simply, incurring salary and benefit costs for staff resources but not investing in developing and maintaining their skills is a blueprint for failure. In tough fiscal times, it can be challenging to maintain a commitment to ongoing training. On the other hand, as noted above, there are a number of no and low cost training opportunities available, and Metro Fire should take advantage of them.

④ Financial Management System: Become fiscally independent from the County

As discussed in greater detail in Appendix B, Metro Fire maintains two separate, parallel financial management systems:

- In-house “Eden” system
- County of Sacramento “Compass” system

As discussed below, maintaining these two systems leads to duplicated efforts, significant potential for errors, delays in accounts payable processing and check disbursement, and the need for ongoing reconciliation between the two systems. Difficulties due to the use

FINANCE DIVISION ORGANIZATIONAL REVIEW

of two systems are specifically noted by the auditors' in their report to the Board (Appendix E), and underlie many of their other concerns.

Four options for improving the current situation are discussed in Appendix B:

- Continue the status quo
- Continue the status quo with greater use of electronic data transfer
- Use only the County system
- Use only the Eden system and become fiscally independent from the County

Based on the pros and cons of each option, it is recommended that Metro Fire become fiscally independent from the County and use only the Eden system. There will be some minor added costs in doing so for banking services as well as added staff responsibilities for bank statement reconciliations and cash management. However, along with other recommended operational improvements, these minor costs and added responsibilities will be more than offset by significant improvements in productivity, efficiency, accuracy and financial reporting.

In making this transition, it is recommended that Metro Fire begin with its payroll operation: it is already a fully parallel system; it works well today; and it can be easily accomplished.

⑤ Operations: Streamline purchasing, capital assets, accounts payable and payroll procedures while retaining appropriate internal controls

Appendix C provides a detailed discussion of the procedures in these four systems and makes recommendations for improvements in each. The following summarizes key changes for each system:

- ***Purchasing.*** Updates authorization limits and moves Board involvement to an earlier, more meaningful stage in the formal bid process.
- ***Capital Assets.*** Eliminates distinctions between assets for capitalization in financial statements.
- ***Accounts Payable and Payroll.*** Eliminates duplicative steps that will no longer be needed if Metro Fire becomes fiscally independent from the County.

The proposed changes will improve productivity and efficiency for the both the Finance Division and operating staff while maintaining appropriate internal controls.

⑥ Financial Reporting: Prepare annual financial reports in accordance with “best practices” and provide more meaningful interim reports

The following outlines recommended changes for annual and interim financial reports:

FINANCE DIVISION ORGANIZATIONAL REVIEW

Annual Financial Reporting	Interim Financial Reporting
<ul style="list-style-type: none"> • Follow generally accepted accounting principles (“GAAP”). • Strive for an unqualified audit opinion. • Prepare year-end closing entries and annual financial statements in-house. • Issue audited financial statements within 180 days after fiscal year-end. • Breakout separate funds in the audited financial statements as they are in the budget document. • Prepare a “Comprehensive Annual Financial Report” (CAFR) in accordance with “best practice” guidelines prepared by the GFOA and CSMFO. 	<ul style="list-style-type: none"> • Consider issuing electronic or hard copy reports to program managers monthly: while on-line financial information is available to managers “24/7,” this would help put fiscal information on their policy radar on a regular basis. It will also help provide internal discipline for timely month-end close by the Finance Division. • Hold informal but structured quarterly reviews with Fire Chief. • Issue streamlined interim reports with a “punchy” narrative focus on “what does it mean?”; and consider issuing them on a quarterly rather than monthly basis, where changes from the prior report are likely to be more meaningfully. • Issue timely “ad hoc” reports as needed. • Continue mid-year budget reviews.

Audit Renewal. The current audit agreement with Richardson and Company expires with the completion of the 2009-10 Audit. Instead of issuing a request for proposals (RFP) at that time, it is recommended that Metro Fire renew the current agreement for three years (and then request proposals) for two key reasons:

- Richardson and Company is a very capable audit firm; and continuity while making the major changes ahead is essential. Stated simply, the audit firm can be a powerful partner in helping Metro Fire make needed changes. Without the background and experience of the current firm, it would be very difficult for a new firm to play a similar role.
- Preparing the RFP, evaluating the proposals, negotiating the contract and then transitioning to a new audit firm will be a major, staff-intensive undertaking. For the next few years, this effort will be better spent making needed system improvements.

7 Long-Term Financial Planning: Prepare five year fiscal forecast

Like virtually all other local governments in California, Metro Fire has been faced with major fiscal challenges over the past several years in the wake of the worst recession since the Great Depression. And like most other local governments, it has largely addressed these challenges on a year-by-year basis through the budget process. In better

FINANCE DIVISION ORGANIZATIONAL REVIEW

positioning itself for the future, Metro Fire should prepare a five-year fiscal forecast and follow-up financial plan based on the forecast results. Along with assessing the longer-term impacts of short-term budget decisions, the forecast will help Metro Fire better manage long-term fiscal sustainability. For those agencies that have prepared longer-term forecasts and follow-on financial plans, this did not magically make their fiscal problems disappear: they still had tough decisions to make. However, it allowed them to better assess their longer term outlook, more closely define the size and duration of the fiscal challenges facing them, and then make better decisions accordingly for both the short and long run.

③ Budget: Move from line-item to program budget

There is general consensus that effective budget documents serve four roles:

- ***Policy Document.*** Identifies the key financial issues facing the agency; sets forth goals and objectives to be accomplished; and articulates the fundamental fiscal principles upon which the budget is prepared.
- ***Financial Plan.*** Identifies and appropriates the resources necessary to accomplish objectives and deliver services; and shows the agency's fiscal condition.
- ***Operations Guide.*** Describes the basic organizational units and activities of the agency in delivering services.
- ***Communications Tool.*** Provides the public with a blueprint of how public resources are being used and how these allocations were made.

At the end of the day, budgets are all about how an organization's resources will be used in meeting its highest priority goals: what will get done; and more importantly these days, what will not get done in the coming year. The process – and the resulting budget document – can be implicit or explicit; but it will have this result in either case.

Metro Fire's Budget does a good job of communicating key fiscal challenges and how the Budget responds to them in the Fire Chief's Letter to the Board. Its Budget also does a good job of describing regular staffing authorizations (which, given that 90% of Metro Fire's costs are for staffing, is an appropriate focus – one that many other local government budgets lack.)

However, in better meeting the roles of the budget document outlined above and making the results of the budget process more transparent for both the organization and the community, it is recommended that Metro Fire move towards a budget that is more program-oriented, with less emphasis on line-item detail. This will result in a budget document that is more policy focused on what Metro Fire does and why.

This means presenting the following kind of information in the Budget for each major program that Metro Fire provides:

FINANCE DIVISION ORGANIZATIONAL REVIEW

- Program description
- Program purpose, goals and activities in delivering services
- Program staffing levels
- Program costs
- Program objectives for improving the delivery of service
- Program workload and performance indicators

This does not mean “reinventing the wheel” in identifying programs. In fact, as shown in the sidebar below, it makes sense to align them with the organizational units already in place. In this example, Metro Fire would have eleven programs in its Budget, organized into four major operational areas.

Sample Budget Programs

- Administration
- Operations
 - Fire Suppression
 - Emergency Medical Services
 - Safety & Training
- Support Services
 - Fire Prevention
 - Logistics/Purchasing
 - Facilities
 - Fleet
- Business Services
 - Finance
 - Human Resources
 - Information Technology

Five-Year Capital Improvement Plan

While it is common for local agencies to adopt one-year operating budgets, it is also common to adopt multi-year (five years is the most common time period) capital improvement plans (CIP).

Unlike most operating budgets, CIP projects change significantly from year-to-year; are often funded by multiple sources; and can go through many phases (such as study, design, environmental review and construction) over many years before they are

completed. While CIP budgets are typically only appropriated for first-year projects, knowing what is on the horizon provides a better picture of future year costs and allows for better fiscal planning. Accordingly, Metro Fire should prepare a five-year CIP as part of its Budget.

Budget Award Programs and “Best Practices”

Both the CSMFO and GFOA have budget award programs that set forth “best practice” criteria. While there is value in participating in these programs via the feedback provided by highly-qualified reviewers, simply using their checklists (available on-line at no cost on their web sites) provides a great resource for improving the budget process and presentation. Additionally, the National Advisory Council on State and Local Budgeting has developed a comprehensive set of recommended budget practices. Its *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* provides sample documents and is also available at no cost on the GFOA’s web site.

9 Fiscal Policies: Develop and implement formal fiscal policies

Clearly articulated fiscal policies provide an essential foundation for financial decision-making. The importance of developing and maintaining an organization’s fiscal health is very similar to personal health: it is not what you live for, but it is hard to enjoy your life

FINANCE DIVISION ORGANIZATIONAL REVIEW

without it. And like personal health, fiscal health is rarely luck. The strength of the local economy is obviously an important fiscal health factor – just as genes are in personal health. However, regardless of the strength of its local economy, no agency is immune from economic downturns.

At the end of the day, effective financial management counts in developing and preserving an organization's fiscal health. The "poster child" for this is the Orange County bankruptcy in the 1990s. This did not occur because Orange County had a weak economy: in fact, Orange County is one of the wealthiest places on the planet. Rather, it occurred because of the lack of prudent fiscal investment policies (or failure to follow them).

Stated simply, articulating and then following prudent fiscal policies is the most effective and proven way for government agencies to ensure their long-term fiscal health. They are both preventative and curative:

- Clearly articulated policies help prevent problems from arising in the good times.
- And help prudently respond to bad times when they do occur.

They have the power to take on a momentum of their own:

- The most frequent answer to the question "why do we do it this way?" is "because it's the way we've always done it." On the other hand, clearly written fiscal policies provide a powerful and thoughtful reply to this question.
- And they provide an important source of continuity as elected officials and staff change.

Lastly, fiscal policies are the most powerful when they are put in place before the need for them arrives.

Plans Versus Policies

Long-term plans are important in setting the course for an organization's operations. However, plans change over time as actual results replace assumptions. On the other hand, policies are an agency's "north star" in guiding the preparation of plans. They help make tough decisions easier by stating an organization's values before they are placed under stress by adverse circumstances. The organization might still choose to do something different – effective policies are guides, not straightjackets – but they are a powerful starting point: *but for "this," the organization should do what?*

Rating Agency Criteria

There are three major bond rating agencies: Standard & Poors, Fitch and Moodys. Two of these – Standard & Poors and Fitch – believe that fiscal policies are so important that they have formally integrated them into their credit rating criteria. For agencies that are beginning to develop the fiscal policies, their criteria offer a valuable starting point.

FINANCE DIVISION ORGANIZATIONAL REVIEW

Fitch Rating Agency has categorized fiscal policies as follows in terms of how they affect their credit ratings:

Very Significant

- Fund balance policy
- Debt affordability policy

Significant

- Pay-as-you-go capital financing
- Multi-year forecasting
- Quarterly reporting
- Quick debt retirement

Influential

- Contingency plans
- Non-recurring revenue policy
- Reporting fixed assets in accordance with generally accepted accounting principles
- 5 Year CIP integrating operating cost impacts
- GFOA financial reporting award
- GFOA budgeting award

Standard & Poors has identified the following “Top Ten Practices” that affect their ratings:

- Established budget reserve
- Regular economic and revenue reviews
- Prioritized spending plans and established contingency plans
- Formal capital improvement plan
- Long-term planning
- Debt affordability model
- Pay-as-you-go financing
- Multi-year financial plan
- Effective management and information systems
- Well-defined and coordinated economic development plan

Based on these, likely fiscal policy areas for Metro Fire include:

- Balanced budget (and what this means)
- Long-term financial planning
- Board versus staff budget authority
- Revenue management, such as earmarking and the use of one-time revenues
- User fee cost recovery: when should user fees fund services versus general purpose revenues? At what level? And how is this determined?
- Financial reporting (annual and interim)
- Investments
- Appropriations limit
- Minimum fund balance
- CIP management
- Capital financing and debt management
- Human resource management
- Contracting-out

⑩ Implementation: Prepare detailed implementation plan

The recommendations set forth in this report cannot be readily implemented in a few months time. While some are easier and can be done quicker than others, many of them will take careful planning and several years to fully accomplish. For this reason, it is essential that a detailed Project Plan be developed that sets priorities and identifies key

FINANCE DIVISION ORGANIZATIONAL REVIEW

tasks to be completed; when they should be completed; and who is responsible for completing them. In some cases, lower priority tasks may be scheduled ahead of higher priority ones, simply because they can be more easily accomplished, and the benefits should not be put off waiting for more complex tasks to be completed. Along with setting priorities, the Project Plan should clearly set forth:

- Objectives
- Strategy and priorities
- Key assumptions
- Constraints and limitations
- Project team
- Stakeholders
- Tasks and schedule: What, who and when
- Resources required to achieve project objectives

CONCLUSION

Acknowledgments

I want to express my deep appreciation for the great assistance provided to me in preparing this report by the City's auditors, Richardson and Company; County staff; and the Metro Fire staff, including the command, general and Finance Division staff. They all gave generously of their time and knowledge; and without that, this report would not have been possible.

The Road Ahead

While there are challenges ahead of Metro Fire in implementing the changes recommended in this report, two things should be kept in mind:

- Given the staffing and organizational constraints that have faced the Finance Division, and the overall fiscal challenges that have faced the Metro Fire organization as a whole, Metro Fire's Finance Division has still been able to deliver day-to-day services that have largely met its customer's expectations; and it has made significant progress on several of the concerns expressed by the auditors.
- Charles Darwin observed that: "It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change." Being responsive to the changes ahead of Metro Fire over the next few years as it implements this report's recommendations will be the key to a successful outcome.



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COMPARATIVE STAFFING BENCHMARKS

The Finance Division organizational review workscope calls for comparing key benchmarks of Finance Division services, staffing and organization with comparable agencies. The following outlines the key factors considered in selecting the five benchmark agencies:

- Chino Valley Fire Protection District
- El Dorado County Fire Protection District
- Fresno County Fire Protection District
- Orange County Fire Authority
- San Ramon Valley Fire Protection District

Background

The key to effectively comparing one agency with another is to find agencies with similar characteristics. In the case of assessing Metro Fire's Finance Division, this means finding fire agencies that are comparable in:

- Size of the geographic area and population served
- Budget and staffing
- Governance: independently elected or appointed Board of Directors

Once similar agencies are identified, comparisons can be made on a ratio basis, such as Finance staffing relative to total staffing or per \$1,000 of budget. However, these types of ratios are only meaningful where the benchmark agencies are in fact comparable using all three of the above criteria.

For the purpose of this review, the third criteria – governance – is especially critical. Otherwise-comparable fire agencies that are part of a larger general purpose organization such as a county or city will have significantly different Finance staffing needs than an independent agency like Metro Fire.

For example, where the fire agency is governed by a city council or board of supervisors, central finance departments will provide key services like accounts payable, payroll, accounts receivable, general ledger, budget preparation and financial reporting to the entire organization. On the other hand, in-house Finance Divisions for independent districts like Metro Fire need to provide these services directly. This will also be the case for community services districts that provide fire as well as other services.

Benchmark Agencies Used for Compensation Purposes

The following presents the fourteen benchmark agencies used by Metro Fire for compensation comparison purposes:

APPENDIX A

Agency	Governing Body
Alameda County	Board of Supervisors
Contra Costa County	Board of Supervisors
Kern County	Board of Supervisors
Long Beach City	City Council
Los Angeles City	City Council
Los Angeles County	Board of Supervisors
Oakland City	City Council
Orange County	Independent Appointed Board
Sacramento City	City Council
San Diego City	City Council
San Francisco City/County	Board of Supervisors
San Jose City	City Council
Ventura City	City Council

These agencies are likely to be a “good fit” from a population, budget and staffing perspective. However, of the fourteen agencies, only the Orange County Fire Authority (OCFA) meets the critical criteria of an independent board. It should be noted that while the OCFA is an independent agency, its Board is not directly elected like Metro Fire’s: the 24-member board is composed of one elected representative from each of the 22 cities served by it as well as two members from the County Board of Supervisors. Nonetheless, for the purpose of comparing Finance operations, it is a good “fit.”

Selected Benchmark Agencies

As expected in scoping this analysis, finding comparable benchmark agencies was challenging. For example, as noted above, of the fourteen agencies that Metro Fire uses for compensation comparison purposes, only the Orange County Fire Authority has a comparable governing board. Other large fire protection districts, such as the Ventura County and Contra Costa County Fire Districts, are not independent agencies: they are governed by the County Board of Supervisors. On the other hand, many independent fire districts, like the Scotts Valley, South Placer County and West Plainfield Fire Protection Districts, are much too small for an effective comparison with Metro Fire.

After extensive research for comparable agencies, including contact with the Fire Districts Association of California, the following five agencies emerged as the best comparison agencies from a finance organization perspective:

Benchmark Agency Summary				
Agency	Budget (In Millions)	Regular Staffing	No. of Stations	Service Population
Chino Valley Fire Protection District	\$28.7	126	7	176,000
El Dorado County Fire Protection District	\$15.8	91	15	74,000
Fresno County Fire Protection District	\$19.0	116	13	220,000
Orange County Fire Authority	\$273.3	1,182	62	1,403,000
San Ramon Valley Fire Protection District	\$55.4	191	10	160,000
Sacramento Metropolitan Fire District	\$148.3	621	42	640,000

While most are not as large as Metro Fire, they are all complex organizations with multi-million budgets. As such, on a proportional basis, this provides a meaningful basis of comparison with Metro Fire’s finance organization.

APPENDIX A

Fiscal Independence from County

As summarized below, with the exception of El Dorado County Fire Protection District, all of the benchmark agencies are fiscally independent from the County.

Agency	Fiscally Independent	
	Yes	No
Chino Valley Fire Protection District	x	
El Dorado County Fire Protection District		x
Fresno County Fire Protection District	x	
Orange County Fire Authority	x	
San Ramon Valley Fire Protection District	x	
Sacramento Metropolitan Fire District		x

This underscores the auditors' findings that it is rare to find an organization the size of Metro Fire that still relies upon the county for their fiscal operations. Moreover, as discussed in this report and reflected in the auditors' findings, parallel use of the County's finance system for accounts payable and payroll checks along with Metro Fire's in-house Eden system results in a number of added financial complexities and management challenges.

Benchmarking Results

As reflected below, even with the addition of two new positions and the transfer of a Payroll Specialist, Metro Fire's Finance staffing will be among the lowest of the comparable agencies when measured against the benchmarks of:

- Finance Staffing per 100 Regular Employees
- Finance Staffing per \$100,000 of Budget
- Finance Staffing per 100,000 Service Population

Finance Staffing Benchmark Summary				
Agency	Finance Regular Staffing	Finance Staffing Ratios		
		Per 100 Regular Staff	Per \$100,000 of Budget	Per 100,000 Population
Chino Valley Fire Protection District	3	2.4	1.0	1.7
El Dorado County Fire Protection District	2	2.2	1.3	2.7
Fresno County Fire Protection District	2	1.7	1.1	0.9
Orange County Fire Authority	28	2.4	1.0	2.0
San Ramon Valley Fire Protection District	4	1.8	0.6	2.2
Sacramento Metropolitan Fire District	10	1.6	0.7	1.6
Average (Excluding Metro Fire)		2.1	1.0	1.9

As reflected above, even with the added staffing, Finance Division staffing will still be the lowest of the benchmark agencies compared with Finance staffing per 100 regular employees; and second lowest compared with Finance staffing per \$100,000 of budget and per 100,000 of service population. This finding underscores why existing Finance staff are not able to fully meet Metro Fire's financial management needs: there are simply too few of them to do so.

APPENDIX A

Finance Staffing Summaries

The following summarizes the Finance-related staffing of Metro Fire and the benchmark agencies:

Sacramento Metropolitan Fire District	
Finance Division Regular Staffing	No.
Chief Financial Officer	1.0
Controller	1.0
Payroll Supervisor	1.0
Accounting Specialist	1.0
Payroll Specialist	1.0
Accounting Technician	5.0
Total	10.0

Benchmark Agencies

Orange County Fire Authority	
Finance Division Regular Staffing	No.
Assistant Chief, Business Services	1.0
Treasurer	1.0
Assistant Treasurer	1.0
Budget Manager	1.0
Budget Analyst	3.0
Finance Manager	1.0
Payroll/Accounts Payable Manager	1.0
Accounting Manager	1.0
Senior Accountant	2.0
Accountant	6.0
Senior Accounting Support Specialist	10.0
Total	28.0

San Ramon Valley Fire Protection District	
Finance Division Regular Staffing	No.
Administrative Services Director *	0.5
Financial Services Supervisor	1.0
Accounting Technician	2.0
Total	3.5

* 50% Finance/50% Human Resources

APPENDIX A

Chino Valley Fire Protection District	
Finance Division Regular Staffing	No.
Finance Manager	1.0
Payroll & Benefits Coordinator	1.0
Accounting Technician	1.0
Total	3.0

El Dorado County Fire Protection District	
Finance Division Regular Staffing	No.
Fiscal Analyst	1.0
Administrative Assistant	1.0
Total	2.0

Fresno County Fire Protection District	
Finance Division Regular Staffing	No.
Administrative Officer	1.0
Staff Services Analyst	1.0
Total	2.0

FINANCIAL MANAGEMENT SYSTEM

Metro Fire maintains two separate, parallel financial management systems:

- In-house “Eden” system
- County of Sacramento “Compass” system

As discussed below, maintaining these two systems leads to duplicated efforts, significant potential for errors, delays in accounts payable processing and check disbursement, and the need for ongoing reconciliation between the two systems. Difficulties due to the use of two systems are specifically noted by the auditors’ in their report to the Board (Appendix E) and underlie many of their other concerns.

Four options for improving the current situation are discussed below:

- Continue the status quo
- Continue the status quo with greater use of electronic data transfer
- Use only the County system
- Use only the Eden system and become fiscally independent from the County

Based on the pros and cons of each option, it is recommended that Metro Fire become fiscally independent from the County and use only the Eden system. There will be some minor added costs in doing so for banking services as well as added staff responsibilities for bank statement reconciliations and cash management. However, along with other recommended operational improvements, these minor costs and added responsibilities will be more than offset by significant improvements in productivity, efficiency, accuracy and financial reporting.

In making this transition, it is recommended that Metro Fire begin with its payroll operation: it is already a fully parallel system; it works well today; and it can be easily accomplished.

Why does Metro Fire maintain two systems?

This has its roots in Metro Fire’s history of emerging from the consolidation of sixteen separate districts over a long period of time.

Background

Under Health and Safety Code Section 13800, the County is required to provide accounting and treasury services to independent fire protection districts like Metro Fire, and at no cost to the district. On the other hand, it also allows independent fire protection districts – at their option – to become fiscally independent. For small districts, County management of their funds makes sense in at least two ways:

- Like Metro Fire, most are heavily dependent on property tax revenues as their primary funding source (for example, they account for 80% of Metro Fire’s revenues) and the County is responsible for collecting these.
- And it provides small agencies with professional financial management that would be prohibitively costly to provide on their own.

Accordingly, back when Metro Fire was 16 much smaller agencies, it made sense for the County to serve as its treasury and accounting arm. However, as Metro Fire grew larger and more complex, the desire arose for greater control over its fiscal management. Based on staff interviews, implementation of the Eden system began in 2003. Today, the Eden financial system provides Metro Fire with a full suite of software applications, including accounts payable, payroll, purchasing, encumbrance accounting, accounts receivable, cash receipts, fixed assets, budget and financial reporting.

It is likely that the original intent was to discontinue using the County once the Eden system was fully installed; and to run parallel systems only as long as needed to assure a successful transition. If this was the case, this goal fell by the wayside as higher priorities surfaced; and over the past eight years maintaining two parallel systems has become “the way we’ve always done it.”

Overview of Current Parallel Systems

While there are parallel systems for virtually all of Metro Fire’s financial operations – accounts payable, payroll, cash receipts, journal entries and financial reporting – the following summarizes the current system for accounts payable and payroll.

Accounts Payable

In-House “Eden” System. After matching invoices to appropriate authorizing documents (such as purchase orders), Metro Fire’s Finance staff enters these into the in-house Eden system. Edit listings are then reviewed before they are posted. To this point, the process used by Metro Fire is in the mainstream of local government practices; and the next step would simply be processing and issuing checks to vendors. However, Metro Fire does not process check disbursements: this is done by the County.

County “Compass” System. In order for the County to disburse payments for Metro Fire, it must follow its own financial management procedures. (It uses Compass as its financial management software, and for this reason, the County system is often referred to as the “Compass” system versus Metro Fire’s “Eden” system.) Except for actually printing checks (a very simple “final step” in the Eden system), the steps taken above by in-house staff would fully meet all of Metro Fire’s accounts payable needs.

However, the following added steps are required by Metro Fire and County staff in order to disburse payments to vendors:

- The CFO signs individual County claim forms for each invoice.
- Metro Fire staff make hard copies of all accounts payable supporting documents.
- Along with the claim forms, originals of the accounts payable supporting documents are driven by Metro Fire staff to the County twice a week (Wednesday and Friday).
- The County then re-enters all of this data into its Compass system.
- The County issues checks 7 to 10 working days after receipt of hard copies of the accounts payable supporting documents from Metro Fire.

APPENDIX B

Fortunately, Metro Fire has on-line access to the County system. Otherwise, albeit on an invoice-by-invoice basis, Metro Fire would never know when checks are in fact issued to vendors.

This dual process has four major drawbacks:

- It is highly duplicative and requires significant added staff effort by both Metro Fire and the County. And for this extra effort, there is no value added.
- Because the same data is entered twice, there is a significant potential for error. (The fact that there are not as many errors as might be expected is a testament to the internal control procedures of both agencies).
- There is no control over when vendor payments are made (and as noted above, limited access to information as to when payments have actually been made).
- And regardless of productivity and efficiency improvements to purchasing and accounts payable procedures as discussed in Appendix C, this system – even when working well – means that payments to vendors will always be about two weeks later than would otherwise be the case.

Payroll

Making payroll payments to employees each month is the result of two basic processes:

- **Time Worked.** Recording and entry of time worked for each employee.
- **Data Base Maintenance.** Time worked is then applied against the payroll data base for each employee, such base salary, special assignment pays, health insurance coverage, retirement benefits, vacation accruals, tax withholding and other deductions.

Accordingly, processing an accurate payroll requires two basic actions: correctly recording and entering time worked; and maintaining an accurate employee compensation data base. (And given that staffing accounts for 90% of Metro Fire's costs, producing an accurate payroll is an essential factor for effective financial management.) In the case of Metro Fire, time worked is recorded and entered electronically into both the in-house and County systems through the use of "Telestaff" software (which is used successfully for this purpose by many fire agencies throughout the country).

The use of Telestaff by both Metro Fire and the County means significantly reduced duplication of effort and potential for error in entering time-worked data. However, this is not the case for the most Finance staff-intensive part of the process: data base maintenance. This must be maintained separately for each system. This means duplicate entry each month for every change for all employees in pay, address, dependent status, benefits and deductions.

Unlike the accounts payable system, Metro Fire staff enter data directly into the County's payroll system; and there is significant use of electronic data transfer. However, like the accounts payable system, using the County for payroll check disbursements (or direct deposits) results in significant added staff effort (with no added value for it) and potential for data base maintenance errors.

Services Provided by the County Are Significant – And Free

It should be noted that the County can and does provide Metro Fire with more than “just” check disbursement services. It either does or could provide a wide range of financial management services *at no cost* to Metro Fire. These include:

- ***Payroll and Accounts Payable.*** While Metro Fire has chosen to use its in-house Eden system as its “front end” for payroll and accounts payable, the County offers a “full-featured” system for this, to which Metro Fire could have on-line access for accounts payable data entry, like it does for payroll. (In fact, most independent special districts that use the County for accounts payable disbursements enter their payment data using the County’s on-line system.)
- ***Deposits.*** The County makes all of Metro Fire’s bank deposits. (In fact, Metro Fire does not have any direct operating account banking relationships: this is handled by the County.) On the other hand, Metro Fire staff drives its deposits to the County three times a week.
- ***General Ledger.*** While the Eden system could provide Metro Fire with a full general ledger with balance sheet accounts (cash, accounts receivable, accounts payable, fixed assets, equity/fund balance), historically the Finance Division has chosen not to use it. As such, reconciliations between the two systems have been based solely on revenue and expenditure accounts. And because of this, it is the County’s “Compass” system that is used by the auditors in conducting their audit.
- ***Banking Services.*** As noted above, operating account banking services are managed by the County.
- ***Bank Statement Reconciliations.*** And because the County manages the banking relationship, all bank statement reconciliations are performed by the County. However, this does not mean that reconciliations are not required by Metro Fire: they are. However, instead of reconciling to its own bank statements, Metro Fire needs to regularly reconcile to the County system. Ideally, this reconciliation should be made to balance sheet accounts (especially cash) as well as revenue and expenditure accounts. However, as noted above, Metro Fire does not maintain balance sheet accounts in the Eden system. Moreover, these reconciliations with the County system should be performed on a regular basis. As noted in the auditors’ report to the Board, this has not always been the case.
- ***Cash Management.*** The County also provides Metro Fire with significant cash management services. For example, with projections of \$114.5 million in 2010-11, property tax revenues account for 80% of Metro Fire’s funding sources. However, the first receipt of secured roll collections from this source is not received until December, when a 50% disbursement is received from the County – almost six months into the fiscal year. And the next installment will not be received from the County until the following May. From a cash flow perspective, this means that Metro Fire needs about \$70 million to cover operating costs for the first six months of the year and then for the final five months.

Many property tax-dependent special districts throughout the State that are independent from their county have this same cash management challenge. In some cases, the agency may have developed adequate reserves to address this. In many cases, however, it is typical for agencies to issue short-term “Tax and Revenue Anticipation Notes” (TRANS) to meet their cash flow needs. Under this approach, agencies issues TRANS in July and repay them by the

APPENDIX B

end of the fiscal year on June 30. Given their tax exempt status and short-term nature, the interest rate is typically very low on these borrowed funds. And to minimize issuance costs, many agencies issue their TRANS through a pool with other agencies. With this approach, issuance and administration of the TRANS is relatively simple.

On the other hand, the County manages Metro Fire’s cash flow peaks and valleys transparently. When there are cash shortfalls, the County charges Metro Fire a fair interest rate; and when there are positive cash balances, Metro Fire earns a fair interest rate from the County as well. As discussed below, if Metro Fire was to leave the County and become fiscally independent, cash management – along with bank reconciliations – would be a new function that would have to be performed by Metro Fire staff.

Financial Management System Alternatives

As noted above, there are four basic options in addressing the current situation:

- Continue the status quo
- Continue the status quo with greater use of electronic data transfer
- Use only the County system
- Use only the Eden system and become fiscally independent from the County

① *Continue the Status Quo*

Pros	Cons
<ul style="list-style-type: none"> • Comfort level of not making any changes • However, retaining the status quo while meeting fiduciary responsibilities means using the general ledger feature of the Eden system by entering “balance forward” amounts for balance sheet accounts based on the most recent audit; and then performing regular reconciliations between the two systems 	<ul style="list-style-type: none"> • Significant duplicated/wasted effort without added value • Significant potential for errors • Delayed vendor payments • Need for reconciliation between systems • Year-end closing entries difficult to coordinate • Audits difficult to coordinate • Not fully using capacity of either system

② *Continue the Status Quo but with Greater Use of Electronic Data Transfer*

Pros	Cons
<ul style="list-style-type: none"> • Same as “Status Quo” with slightly greater efficiency with on-line entry or electronic transfer of data 	<ul style="list-style-type: none"> • Same as “Status Quo”

APPENDIX B

③ *Use Only the County System*

Pros	Cons
<ul style="list-style-type: none"> • No duplication of effort • Cash management • No reconciliations • Faster payments to vendors • On-line access • No ongoing costs for software maintenance for the Eden system • System meets County's needs, which is a much larger and more complex organization than Metro Fire • Free 	<ul style="list-style-type: none"> • Lack of control • Limited to county chart of accounts • May be difficult to coordinate year-end entries • Audit coordination more difficult • No fixed assets application offered by the County (although Metro Fire could purchase stand alone application for this at a modest cost) • Largest agency using the County (unusual for an independent agency as large as Metro Fire in California to still use the county for fiscal services) • Priorities for resolution of any accounting difficulties determined by the County

④ *Use Only the Eden System and Becoming Fiscally Independent from the County*

Pros	Cons
<ul style="list-style-type: none"> • No duplication of effort • Faster payments to vendors • Retain agency control and familiar system for users • Already doing everything needed for disbursements to vendors and employees 	<ul style="list-style-type: none"> • Need to perform bank reconciliations (but this would be in-lieu of current need to reconcile between the two systems; on the other hand, no reconciliations required at all for "County-only" option) • Minor banking service costs • Cash management (as noted above, there are strategies for mitigating this effort)

APPENDIX C

OPERATIONS REVIEW

The following presents the results the operations review for four key areas:

- Purchasing
- Capital Assets
- Accounts Payable
- Payroll

For each one, an overview is provided of the current system along with recommended changes for improvement.

Purchasing

Metro Fire operates a largely decentralized system, where most purchases are initiated and managed by the operating departments, with centralized review by the Purchasing Agent to assure that policies have been followed and extensive use of templates for formal purchases. Currently, the purchasing function is not located in the Finance Division: it is organized in the Support Services Division, where the Purchasing Agent also serves as the Logistics Manager. However, Finance staff and the Purchasing Agent work closely and cooperatively together. There are conceptually two kinds of purchases made by Metro Fire that have different requirements:

- Supplies, equipment and services, which are governed by Metro Fire policies
- Construction projects, which are largely governed by the State public contract code

Purchasing System Overview: Supplies, Equipment and Services

The following outlines the current system for the purchase of supplies, equipment and services along with proposed recommendations for improvement:

Current System	Recommended Changes
<ul style="list-style-type: none"> • Over-the Counter: Less than \$2,500 • Informal Bids: \$2,500 to \$35,000 - Three bids required • Formal Bids: More than \$35,000 • Purchase Orders: \$500 or more • Cooperative Purchasing: No policy 	<ul style="list-style-type: none"> • Over-the Counter: Less than <u>\$5,000</u> • Informal Bids: <u>\$5,000</u> to \$35,000 - 3 <u>solicitations</u> required (like the current policy for formal bids, where there is no required number of bids) • Formal Bids: More than \$35,000 (no change) - But Fire Chief should be allowed to solicit and award formal bids up \$100,000; and above \$100,000, the Board should approve the bid package and authorize the Fire Chief to award the bid if within budget. • Purchase Orders: <u>\$5,000</u> or more (consistent with informal bidding policy) • Cooperative Purchasing: Should allow in-lieu of Metro Fire's procedures and encourage their use.

APPENDIX C

Along with updating authorization limits (which were last modified five years ago), the most significant recommended change is moving when the Board becomes involved in the purchasing process. Currently, this is at the bid award stage. There are two problems with this late involvement:

- Detailed bid packages defining the items to be purchased and the process for doing so have already been prepared, limiting the Board's input into this and making any changes awkward at best (and most likely requiring the issuance of new invitations for bids or requests for proposals). This requires added staff work – which was likely very extensive to begin with – and delays the purchase of needed supplies, equipment, services and improvements.
- And when the Board does become involved, it is simply for the relatively simple ministerial task of determining who submitted the lowest bid.

It makes more sense to move the Board's involvement to an earlier stage, where it can better exercise policy discretion: approval of the bid package and authorization to invite bids or request proposals.

This provides the Board with meaningful discretion on whether to purchase the item at all and at what cost; and to define the work scope and the term and conditions of the purchase. However, once these parameters are in place, this approach delegates to staff the ministerial action of determining who submitted the lowest bid. In those few cases where bids come in above budget or there are other unexpected issues, bid award would return to the Board. This revision will make purchasing more efficient while retaining appropriate internal controls and more meaningfully involving the Board in the purchasing process.

Purchasing System Overview: Construction Projects

These follow slightly different procedures than purchases of supplies, equipment and services in order to meet State Public Contract Code requirements. However, for the most efficient and effective use of a decentralized system while also assuring appropriate internal controls, it is recommended that Metro Fire adopt the same guidelines for both construction projects and all other purchases. While this will require adopting the State's "alternative bidding procedures," it is a simple administrative matter to do so.

Purchasing Procedures

There are currently three basic steps in the purchasing process:

- **Bidding.** Obtaining informal or formal bids when required and submitting them to the Purchasing Agent (in most cases electronically) for review and approval. When this process is initiated, a unique bid number is assigned.
- **Purchase Requisition.** Preparing a purchasing requisition and submitting it (in most cases electronically) for purchasing approval after meeting bidding requirements. (This step is coordinated by the Finance Division.) When this process is initiated, a unique purchase requisition number is assigned.
- **Purchase Order.** After approval of the Purchase Order by the Purchasing Agent (again, in most cases electronically), a Purchase Order is issued and funds are encumbered. (This step

APPENDIX C

is also coordinated by the Finance Division.) When this process is completed, a unique purchase order number is assigned.

This three-step process is a sound one and generally works well. Two modest changes are recommended:

- Assigning three separate identifying numbers for each process is appropriate. However, these need to be internally referenced in the system for a smoother processing flow. Under the current system, when the Finance Accounting Technician assigned to assist with purchasing initially reviews Purchase Requisitions, there is no way for her to know if bidding requirements have been met. This requires follow-up with either the requesting department or the Purchasing Agent. This can be easily resolved by referencing the Bid Number in the Purchase Requisition, with a link to approved bid document that is already maintained on Metro Fire's shared network drive.
- Not issuing a Purchase Order when there is a formal agreement. This is a duplicative effort and potentially confusing to the vendor. Encumbrance information can be directly entered into the system from the agreement.

Capital Assets

Metro Fire currently classifies capital assets as those with useful lives in excess of one year and an initial acquisition cost of \$5,000 or more. This is an appropriate definition and no change is recommended. However, Metro Fire exempts all fire arms from this limit; and sets a lower limit of \$1,000 for computer-related equipment. While it is appropriate to maintain detailed inventories of fire arms and computer equipment for internal control purposes, there is no need to set lower amounts for capitalization purposes in Metro Fire's financial statements.

Accounts Payable

The following outlines the current accounts payable system along with proposed recommendations for improvement:

Current System	Recommended Changes
<ul style="list-style-type: none"> • All invoices first sent to Purchasing Agent for review • Forwarded to accounts payable for entry • Edit listing reviewed by CFO • Corrections as needed • CFO signs claims voucher for each invoice • Documents copied and originals driven to County twice a week • County enters invoices and issues check 7 to 10 working days after receipt 	<ul style="list-style-type: none"> • Invoices should be sent directly to accounts payable: from an internal control perspective, it is preferable for the Purchasing Agent not to be involved in the accounts payable process; and it adds an unnecessary layer of added review that results in delays in vendor payment without added value • Edit listing should continue to be reviewed for correction before posting but by the Controller • No second approval of each invoice – but CFO should review weekly check register • Issue checks via Eden • Conduct periodic sample internal review of payments

APPENDIX C

As reflected above, while there are other modest changes, most of the streamlining and improved productivity comes from no longer using the County for vendor check disbursements.

Payroll

The following outlines the current accounts payroll system along with proposed recommendations for improvement:

Current System	Recommended Changes
<ul style="list-style-type: none">• Timecard entry via Telestaff• Database maintenance in two systems<ul style="list-style-type: none">- In-house Eden- County "High Line" (e-interface with "Compass")• Electronic transfer of data to County<ul style="list-style-type: none">- On-line access by Metro Fire staff to the County system• Payroll checks and direct deposits issued by County	<ul style="list-style-type: none">• Timecard entry via Telestaff (no change)• Database maintenance in Eden only• Checks/direct deposits issued by Metro Fire

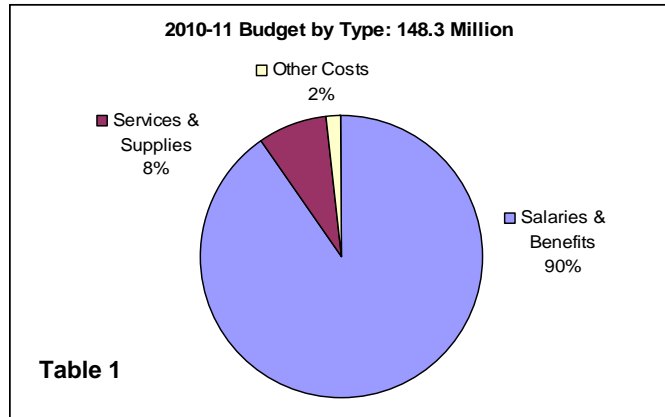
As reflected above, no significant changes to the current payroll system are proposed other than the elimination of redundant steps if Metro Fire no longer uses the County for payroll disbursements.

AGENCY OVERVIEW

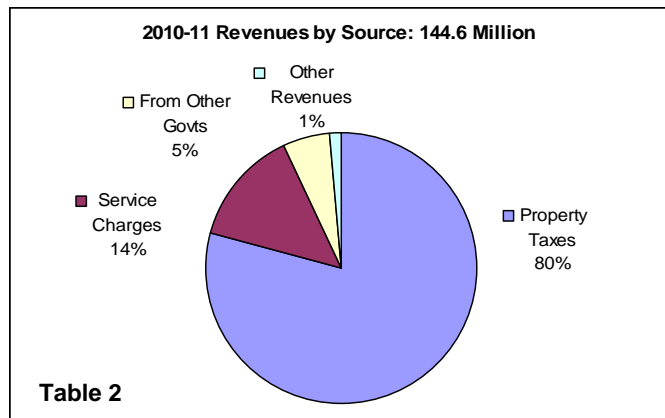
Metro Fire provides services through 42 fire stations and 621 authorized positions to more than 640,000 residents in a 417 square mile area of Sacramento County, the Cities of Citrus Heights and Rancho Cordova, and a small portion of Placer County. It has grown over the years through the consolidation of 16 different agencies, some of which were founded more than six decades ago. Today, Metro Fire is the seventh-largest local fire agency in California. It is governed by an independent, nine-member Board of Directors elected by district within the Metro Fire service area. The Board appoints the Fire Chief, who serves as the agency’s chief executive officer.

With an adopted budget for 2010-11 of \$148.3 million, Metro Fire’s fiscal operations are significant, which in turn require effective financial management in ensuring proper stewardship of these public funds.

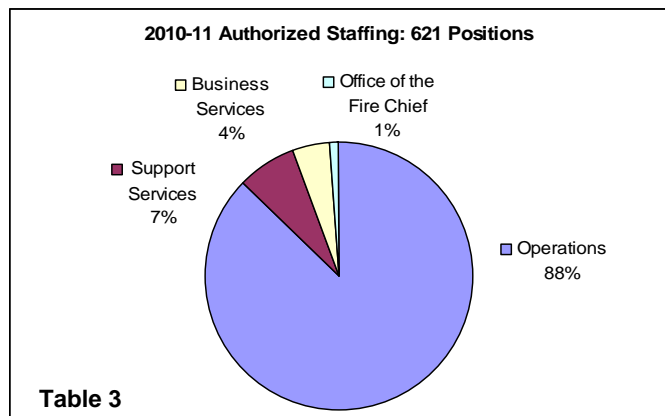
Expenditures. As summarized in Table 1, staffing accounts for 90% (\$133.8 million) of Metro Fire’s costs.



Revenues. Based on the adopted budget, projected revenues for 2010-11 total \$144.6 million. As shown in Table 2, property tax revenues are Metro Fire’s primary funding source, accounting for 80% (\$114.5 million) of total revenues. For 2010-11, the difference between revenues and expenditures of \$3.7 million is being funded from beginning fund balance (“reserves”).



Staffing. For 2010-11, Metro Fire has 621 authorized regular positions. As shown in Table 3, day-to-day operations account for 88% (541 positions) of total authorized staffing.



AUDITORS' REPORT TO THE BOARD

In their report to the Board of Directors that follows, the auditors (Richardson and Company) identified seven material internal control weaknesses and six significant deficiencies, summarized as follows:

Material Internal Control Weaknesses

- Audit adjustments, accrual accounting and unrecorded transactions
- Capital assets
- Inventory
- Risk assessment process/Audit Committee
- Recording of reimbursement revenues
- Grant accounting
- Fund balance classifications

Significant Deficiencies

- Internal control over cash receipts
- Internal controls over payroll
- Monitoring of ambulance billings
- Documentation of County-initiated transactions
- Arbitrage calculations
- Reconciliation of the Eden and County systems

Other Issues

In a follow-up letter to management that provided greater detail on their findings and recommendations to the Board, the auditors also noted the following areas for improvement:

- Workers compensation actuarial study
- Lack of investment policy or reporting
- Lack of collateral on workers compensation money market account
- Credit card processing
- Lack of journal entry supporting documentation
- Need for close-out of a fund no longer in use

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To the Board of Directors
Sacramento Metropolitan Fire District
Sacramento, California

In planning and performing our audit of the financial statements of the Sacramento Metropolitan Fire District (the District) for the years ended June 30, 2009, 2008, 2007 and 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for determining our auditing procedures 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

Background

Most of the District's current system of internal control was established years ago before the District's substantial growth primarily due to mergers and to meet the needs of a growing population. While the original system may have been adequate when implemented and it has been improved significantly in recent years as noted below, substantial changes need to be made to establish a system consistent with the current requirements of an organization with the size and complexity of the District. We have summarized in this letter to the board the findings and recommendations we noted during our audit that are material weaknesses and significant deficiencies. We have also provided the District's management with a letter that describes in more detail all of our findings and recommendations to improve internal control.

Improvement in Controls and Procedures

We recognize that the District has, over the past few years, implemented strong controls over its purchasing, contracting and cash disbursements function, partly in response to concerns raised by District management. We noted no material weaknesses in internal control related to the purchasing function. We also noted an improvement in the organization of the personnel files in our audit of 2009 compared to 2008 and prior years, which is an indication of the efforts made by the District to improve recordkeeping related to payroll. While substantial time and effort has been devoted to making these improvements, we recommend the District continue to improve its controls and procedures by implementing the suggestions included in this letter.

Definitions under Audit Standards

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or

To the Board of Directors
Sacramento Metropolitan Fire District
Page 2

report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Material Weaknesses

Audit Adjustments, Accrual Accounting and Unrecorded Transactions

In order to conform with generally accepted governmental accounting principles, the amounts reported in the District's financial statements must be accounted for using both the modified and full accrual basis of accounting. Nearly 700 entries were needed to convert the District's cash basis accounting system to accrual and to record numerous unrecorded transactions and accounts for the four years we audited. These entries were made in our audit software to expedite the preparation of financial statements, rather than being recorded in the District or County's system. Eventually these entries will need to be appropriately reflected in the District's records. The need to record a material entry is considered a material weakness in internal control under current audit standards.

The District uses Sacramento County for its treasury function and a combination of the County's accounting system and the District's internal accounting system, Eden, to account for its transactions. The District's internal system reflects only revenue and expenditure information for budgetary tracking purposes and does not reflect any balance sheet accounts. The County system reflects balance sheet and income statement accounts of the District in a separate fund, but the District does not have sufficient staff to monitor these accounts and prepare the analyses needed to maintain correct balances. In addition, neither the general ledger maintained on the County's system, nor the District's Eden system, contain all of the transactions and accounts of the District. The following accounts and related transactions are not recorded in the general ledger and the information needed to record these activities was developed from documentation maintained outside of the system: pension bond trust accounts with Deutsche Bank, flexible spending bank account, Pension Trust Fund accounts with US Bank, Tax Revenue Anticipation Note accounts, pension asset and related amortization, capital assets and related depreciation, note payable for the purchase of land, and liabilities for workers compensation claims and compensated absences.

To record all of the District's transactions using the accrual basis of accounting on an ongoing basis as well as accommodate the large volume and complexity of the District's activities, the District needs to isolate its use of the County's system to the treasury function and substantially improve its internal accounting system and practices. We identified sixteen areas where we recommend the District improve its accounting processes that are described in detail in our letter to management. One of the more significant of these recommendations is the addition of an accounting manager or controller with significant accounting experience to assist the CFO as well as the addition and/or training of existing accounting staff to improve the overall understanding of generally accepted accounting principles within the organization.

Capital Assets

Our audit opinion is qualified because the District has not maintained a complete and up-to-date list of its capital assets. The District has historically received qualified opinions from its predecessor auditors for the same reason. While a list has been maintained and updated as part of the audit process for activity for the past four years through June 30, 2009, this list does not contain capital assets that have been donated, such as Copter One. In addition, capital assets that are surplused and disposed of are not being removed

To the Board of Directors
Sacramento Metropolitan Fire District
Page 3

from the list, so the list may contain assets the District no longer uses. To remove this qualification, the District will need to perform a physical inventory of its capital assets and compare the inventory to the current asset list to verify its accuracy, and revise the list as needed.

Once the list has been updated, an accurate list needs to be maintained by establishing procedures to: identify and record additions and disposals, including construction in progress (CIP), on a timely basis; perform periodic physical inventories and make appropriate adjustments to the detail listings; reconcile the facilities spreadsheet prepared by District staff to the general ledger and to the CIP listing maintained by the Finance staff; have CIP project personnel notify Finance staff upon project completion to make entries to transfer the assets and begin depreciation; and inform the accounting staff of when assets are donated such as land or other property that involve minimal or no outlay of cash, so the value of the donated asset is added to the capital list and recorded in the general ledger.

Inventory

Our audit opinion is also qualified because the District has not performed physical counts, quantified and recorded its supplies inventory except through the audit process. With the exception of fuel inventory levels which have been measured on a regular basis and the physical inventory performed by the logistics department at June 30, 2009, estimated amounts have been disclosed in the financial statements based on counts performed as of June 30, 2010. Since these estimates were developed well after June 30, 2009, we were unable to verify the actual quantities on-hand by observation, thereby causing us to qualify our opinion.

An annual physical inventory of material supplies needs to be taken at fiscal year end and the general ledger adjusted to reflect the correct inventory balances. Alternatively, the District may consider the cost effectiveness of installing a perpetual inventory system, supported by test counts performed at various times during the fiscal year. If a perpetual inventory system were in place, physical counts will help detect the loss or unauthorized use of valuable property. A person independent of the inventory function should compare the extended physical counts to the amounts reflected in the general ledger.

Written physical inventory procedures need to be established that include the composition of the count teams, usage and purchasing cutoff, strategy to cover all inventory areas in a systematic manner, use of inventory tags or count sheets, process for valuing the inventory and approach to segregating obsolete or unusable items to be excluded from the count.

Risk Assessment Process/Audit Committee

The District needs to develop control policies and procedures to minimize the number of year-end adjustments. An assessment should be made of the adequacy of the policies and procedures related to maintaining the accounting records on the accrual and modified accrual basis of accounting and appropriate controls designed to rectify the deficiencies noted. When developing control policies and procedures, management should consider where errors or fraud could occur that would cause a material misstatement in the financial statements and which policies or procedures, if operating properly, would prevent or detect the error or fraud on a timely basis.

Employees should be instructed to perform appropriate control activities, such as accuracy and completeness check, approval, and review, as part of their daily activities, and appropriate, timely investigations and corrective actions should be taken if errors are identified by the check and review process. The policies and procedures management develops, documents, and communicates should include routine transaction processing and recording matters as well as nonroutine matters such as journal entries, valuation allowances, revenue recognition, etc. The policies and procedures should also include the reason for the policy; processes to which the policy applies; specific processing, approval, or review steps or procedures to be performed; identification of those positions responsible for the policy and for

To the Board of Directors
Sacramento Metropolitan Fire District
Page 4

performing the steps or procedures; and procedures for handling questions about, or exceptions to, the policy.

The District should designate the Finance Committee as the Audit Committee and develop an Audit Committee Charter that defines the responsibilities and powers of the committee. This committee should have oversight over matters of accounting, internal control, financial reporting and relevant legal issues.

Recording of Reimbursement Revenues

Revenues received for strike team deployments and other reimbursements are recorded by the District as a reduction of salary and other expenses, rather than as revenue. These revenues totaled \$1.7 to \$3.8 million for fiscal years 2006 to 2009. This accounting treatment was initiated to be consistent with budgeting practices, where the salary costs are budgeted net of these revenues. Generally accepted accounting principles require these amounts to be recorded as revenue rather than as a reduction of expenses. We recommend the District establish separate accounts to record these revenues gross to facilitate financial reporting, and offset these accounts with the corresponding expense accounts for budgetary reporting purposes.

Grant Accounting

The District needs to maintain all of its grant files in one place, including the grant agreements, all requests for reimbursement and related invoices, and documentation of cash received for reimbursement. A person needs to be designated to monitor that all reimbursement requests are filed timely and to perform the follow-up necessary to ensure the amounts are collected. We noted that a reimbursement had not been received for \$35,000 related to the alerting system grant that should have been received in 2006 and that timely follow-up had not been made, other than recently as part of the audit process.

These grant files were accumulated by Finance Department staff for the 2006 to 2009 audits, but the District should maintain these files as the transactions occur. In addition, to ensure the proper accounting for grant revenues, the District needs to monitor grant expenditures on cost reimbursement grants and accrue reimbursements as revenue in the period that the corresponding expenditures are incurred.

Fund Balance

The District monitors its various fund balance reserves and designations on spreadsheets; however, these balances do not always correspond to amounts reported in the general ledger, especially the designations of fund balance. The District needs to ensure that general ledger accounts are established for all reservations and designations of fund balance, rather than just tracking these balances on spreadsheets.

The Board of Directors adopted Ordinance 3-02, which imposes a capital fire facilities fee on all residential and commercial development. This fee is required by the California Government Code to bear some relationship to the development project to which the fees relate. These fees are accounted for in a separate fund at the County. However, the District has not established a methodology for applying capital purchase and construction expenditures that relate to expansion of services to the Capital Fire Facilities Fee Fund. Specific projects for the use of this money should be identified during the budget process as expenditures from the Capital Fire Facility Fee Fund and these expenditures should be recorded in this fund when incurred.

In addition, there are funds set aside that are restricted for use in the Antelope and Elk Grove/West Vineyard areas of the District that were collected in 2002 to 2004 and have not been expended. Projects should be identified for the use of these funds.

Significant DeficienciesInternal Control over Cash Receipts

We noted a number of areas where internal controls need to be improved and/or duties adequately segregated to minimize fraud risk. Cash receipt logs need to be prepared at all locations that collect cash and reconciled with the detail postings in the cash account and amounts entered into the County and Eden systems by an employee who does not have access to the cash. Functions need to be segregated whereby the person opening the mail also prepares the cash receipts log and a different person enters the amounts into the general ledger. The person preparing deposit slips should not have access to the general ledger and should not write-off invoices that have been created in Eden. Cash receipts should be kept in a secure location during the day and overnight. Cash received at various locations should be verified by another individual. The Deposit Permit should identify the person taking the deposit to the County, should there be any discrepancies with the deposit. The District has an Administrative Policy that addresses cash receipt processes for Finance and Fire Prevention, but these policies are outdated (1999 and 2003) and do not appear to be followed.

The District maintains a database at the fire prevention sites to produce customer receipts. The amounts in this system are not reconciled with the amounts in Eden. We compared the plan check fees recorded in this database to the amounts deposited at the County and found the amounts in the plan check fee system were higher than those reflected in the County's cash for all four fiscal years under audit. These differences ranged from \$26,000 to \$52,000 each year. The database amounts for plan check fees should be reconciled to the amounts deposited at the County to ensure that all amounts collected are deposited.

Internal Controls over Payroll

The District needs to re-evaluate the procedures related to payroll processing to ensure there is an adequate segregation of duties. The accounting supervisor and the staff specialist have the capability of setting up new employees or making changes to the master file data, posting hours into the payroll system, posting entries into Eden and generating the payroll. The staff specialist also receives payroll checks/stubs directly from the payroll processing service. The person generating payroll checks should not have access to setting up or modifying employee information in the system. A review process should be established whereby the payroll register is reviewed and initialed by someone that does not have access to the payroll system.

Monitoring of Ambulance Billings

Since the District's service bureau for ambulance billings does not have an internal control audit performed on its operations to provide the District with assurance that the proper controls and procedures are in place, the District needs to perform some level of monitoring of the transactions processed by the service bureau. These procedures should include: monitoring the policies and practices of the service bureau with regard to collections and write-offs, reviewing the aging report provided by the service bureau on a monthly basis, reviewing their write-off of receivables at least on a spot-check basis and performing verification procedures to ensure that patient care reports are entered properly into the billing system by the service bureau.

Documentation of County-initiated Transactions

The County does not provide supporting documentation for a number of transactions it initiates that are recorded in the District's general ledger, including developer fees, interest income/expense allocations and property tax allocations. The documentation for these transactions should be obtained from the County, checked for accuracy and completeness and maintained for future use and audits.

To the Board of Directors
Sacramento Metropolitan Fire District
Page 6

Arbitrage Calculations

TRAN transactions are authorized by resolutions of the Board of Directors. The resolutions for the 2005 and 2007 TRANs required the preparation of calculations of funds spent as of six months after each TRAN was closed. If a calculation indicated that all the funds were not “spent”, as defined, the calculations were to be immediately forwarded to bond counsel for assistance in determining if an arbitrage rebate was owed to the IRS. These calculations were not made, resulting in the need to reconstruct them during the audit process and for consultation with bond counsel for guidance. These calculations should be prepared on a timely basis in order to immediately address potential liability issues and to facilitate recording any resulting liability in the financial statements.

Reconciliation of the Eden and County systems

The District has a procedure in place to compare the revenues and expenses in Eden to the amounts recorded in the County system, to ensure all cash transactions have been properly reflected in both systems. Since the numbers in Eden are used to prepare comparisons of budgeted revenues and expenses to actual amounts, it is important to determine that it contains all transactions that are reflected in the County system as well as check for proper posting of all transactions by the County. These reconciliations were prepared for fiscal year 2006 and for July to November 2007 for fiscal 2008, but had not been prepared for fiscal year 2007. The other reconciliations were prepared upon bringing this issue to the District’s attention. Procedures need to be put in place to ensure that some form of reconciliation of the County and Eden systems is prepared on a consistent basis.

* * * * *

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us during the course of the audit. This report is intended solely for the information and use of the Board of Directors, management and others within the organization and is not intended to be and should not be used by anyone other than these specific parties.

August 20, 2010

WORKSCOPE AND METHODOLOGY

As summarized below, the approved workscope identified six basic steps in reviewing the Finance Division organization, making recommendations and presenting the results. These six steps were preceded by detailed project planning as well as briefings on April 18, 2011 by the consultant with the General Staff, Command Staff and Finance Division Staff on the purpose, scope and approach to the review. These briefings also provided Metro Fire staff with the opportunity to ask any questions that they might have about the review at an early stage of the project.

Task 1: Review Key Policies, Plans and Reports

This included an in-depth review of key Metro Fire documents, including:

- 2010-11 Budget
- Audited financial statements
- Interim financial reports
- Auditors' Report to the Board and other supplemental auditor reports and recommendations
- Budget and fiscal policies
- Operating procedure manuals and other written materials on Finance Division operations and practices
- Purchasing ordinance
- Job descriptions and other written materials on the Finance Division's mission, goals, policies, organization, plans and practices
- Organization-wide policies affecting Metro Fire's fiscal operations such as personnel rules and regulations

Task 2: Interview Auditors, County Staff and Metro Fire Staff

Detailed organizational assessment interviews were held from May 23 to May 26, 2011 with Metro Fire's auditors (Richardson and Company), staff from the County Department of Finance; all Metro Fire Finance Division staff; and key "internal customers" (stakeholders). These interviews addressed:

- Finance Division strengths and areas needing improvement
- Perceptions on the quality, reliability and timeliness of reports and services provided by the Finance Division
- Opinions on the reasons for areas needing improvements and possible solutions
- For Metro Fire staff: current and past assignments
- Other areas that surfaced during the course of the interviews

In preparing for the interviews, an organizational survey assessment was conducted beforehand. A summary of the results of this survey for both Finance Division staff and "stakeholders," along with a listing of those interviewed, is presented at the end of Appendix F.

Task 3: Document Operational Practices

Working closely with Finance Division staff, key operations and practices were documented, including: accounts payable; payroll; financial reporting; monthly, quarterly and year-end closing

procedures; purchasing; and financial system reconciliations between the in-house “Eden” system and the County’s “Compass” system.

Task 4: Benchmark Finance Staffing and Services with Comparable Agencies

This included identifying five similar agencies and comparing key benchmarks of Finance Division services, staffing and organization. The results of this analysis are detailed in Appendix A.

Task 5: Prepare Draft Report

Command staff were provided with an oral briefing of preliminary findings and recommendations on June 13, 2011. A follow-up draft report based on this briefing was sent on June 16, 2011; and several more detailed draft reports followed for review by senior managers.

Task 6: Prepare Final Report

After incorporating comments and suggested changes from Task 5, the final report was issued to Metro Fire in electronic form on July 15, 2011.

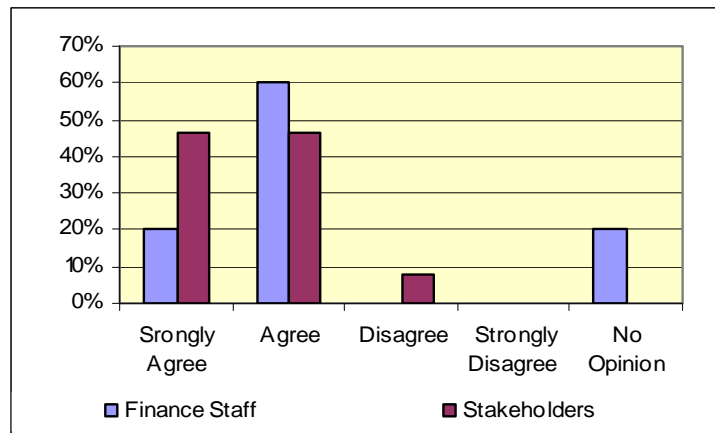
ORGANIZATIONAL ASSESSMENT SURVEY

The following summarizes the results of the Finance organizational assessment survey that preceded the Finance Division and “stakeholder” interviews. As reflected below, both groups were asked the same ten questions so responses between them could be compared. (The survey received an excellent response: all ten Finance Division staff members and thirteen “stakeholders” responded to it.)

❶ Payroll payments to employees are timely and accurate; and when corrections are needed, they are processed promptly.

There was strong consensus among both Finance Division staff and stakeholders in responding positively to this statement:

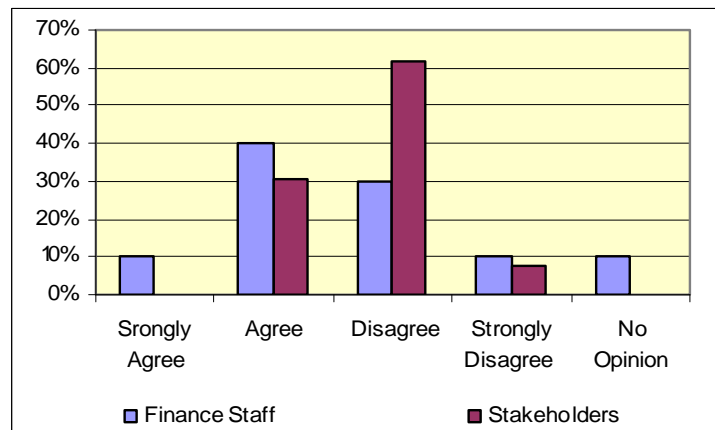
- 80% of Finance Division staff agreed or strongly agree with this statement.
- And 90% of the stakeholders agreed or strongly agree with this statement.



❷ Payments to vendors are timely and accurate.

On the other hand, both groups believe that there are problems with timely payments to vendors:

- 40% of Finance Division staff disagreed or strongly disagreed with this statement.
- And 65% of the stakeholders disagreed or strongly disagreed with this statement.



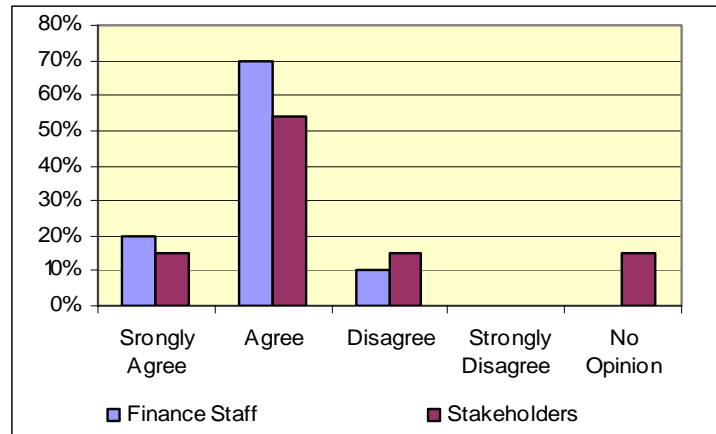
As discussed in this report’s findings and recommendations,

even with improvements in internal procedures, there will always be an added ten to fourteen days for check disbursements due to the dual finance systems in place and related reliance upon the County for check disbursement. This largely accounts for the modest difference of opinion between the Finance staff and stakeholders on the timeliness and accuracy of payment: the accounts payable staff are entering invoices on a timely basis; however, there are added delays (and added potential for errors) with this duplicate, parallel system. At the end of the day, even if Finance staff are “delivering” on timely processing, operating staff (and vendors) experience slow payment due to the dual systems.

APPENDIX F

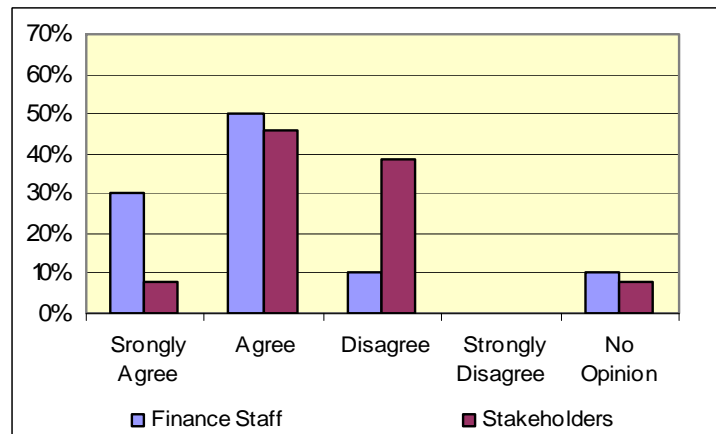
③ Finance Division staff provide great customer service.

There is general consensus among both groups that the Finance Division is committed to strong customer service, with 90% of the Finance staff and about 60% of the stakeholders responding favorably to this statement.



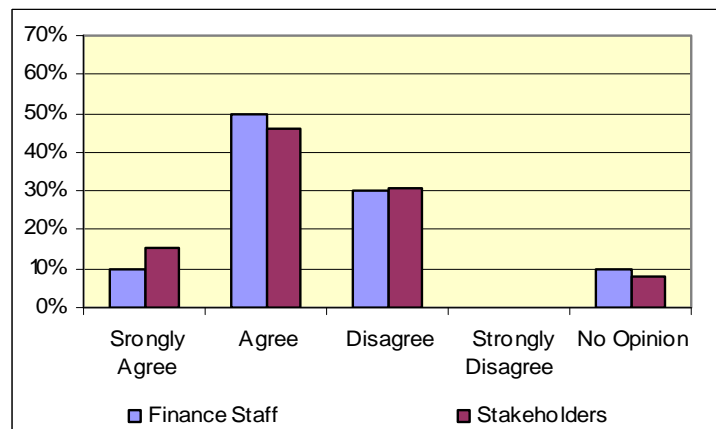
④ Finance Division staff respond quickly and respectfully to information requests.

The Finance Division's commitment to customer service is also reflected in the generally positive responses by both groups to this statement, although the responses by stakeholders were not as positive as those by the Finance staff: 80% of the Finance staff responded favorably compared with about 55% of the stakeholders.



⑤ Finance Division staff strive for quality in all endeavors and take pride in the results.

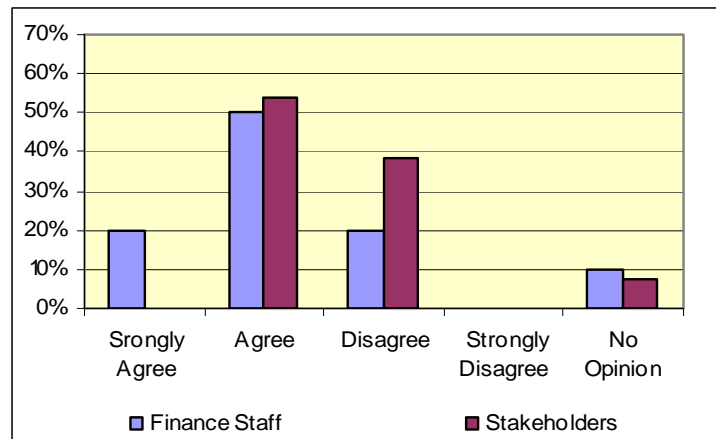
60% of the Finance staff as well as 60% of the stakeholders agreed or strongly agreed with this statement.



APPENDIX F

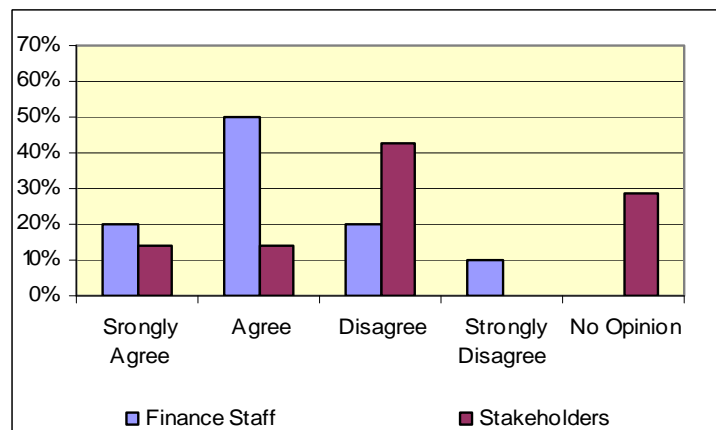
③ The Finance Division's financial policies, plans and reporting systems help the operating departments achieve their objectives and assure the District's long-term fiscal health.

70% of Finance staff and slightly over 50% of the stakeholders responded favorably to this statement.



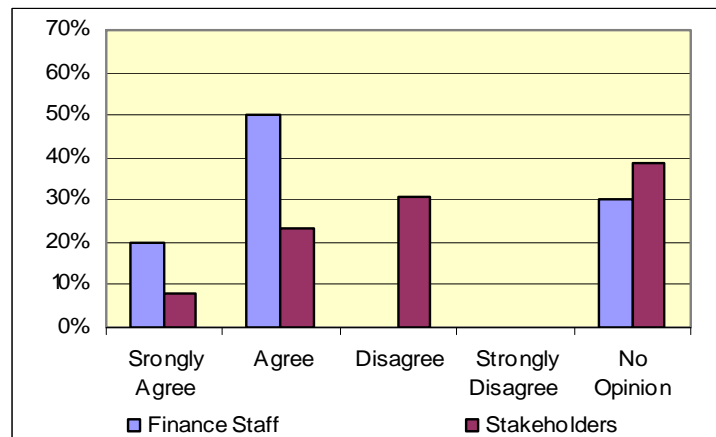
⑥ Finance Division staff are competent and knowledgeable about their assigned duties.

The responses to the next two statements show that there is work ahead of the Finance Division in improving its performance; and they reinforce the recommendation for an added focus on training. In this case, while 70% of the Finance staff responded favorably to this statement, only 30% of the stakeholders did.



⑦ Financial reports are issued on a timely basis and provide meaningful information.

There is also a significant divergence of opinion between the Finance staff and stakeholders regarding financial reporting, with 70% of the Finance staff responding positively while just 30% of the stakeholders do. Stakeholder responses reinforce the recommendation for more concise and meaningful financial reports.



APPENDIX F

The next two questions were open-ended, so there is no effective way of graphically presenting the responses. However, there are “themes;” and based on these, the following shows the “Top Three” themes for each question for the Finance Division staff and the stakeholders. In general, they reinforce the results of the structured questions.

⑨ What are the three best things about the Finance Division?

Top Three Themes	
Finance Division Staff	Stakeholders
<ul style="list-style-type: none"> • Good working relationships with internal and external customers • Most of the staff is jovial and exhibit a teamwork attitude • The payroll team elevates the overall reputation of the Finance Division; minimal payroll problems, good team effort by those working in payroll 	<ul style="list-style-type: none"> • Usually great service to employees; always willing to help solve issues • Managers responsible for the division want to do what is right; the division is moving in a positive direction • Paychecks arrive on time and any issues are resolved quickly

⑩ What are the top three areas where the Finance Division could improve in better serving Metro Fire?

Top Three Themes	
Finance Division Staff	Stakeholders
<ul style="list-style-type: none"> • Improved training combined with better accountability • Better communication, trust, confidence and faith in one another between management and employees • More accounting professionals with top skill levels; increased staff levels in order to convert from cash basis to accrual basis 	<ul style="list-style-type: none"> • Faster turn-around on vendor payments; improve/streamline vendor invoice approvals • Improve/streamline purchasing procedures • Better training on financial management system

FINANCE AND STAKEHOLDER STAFF INTERVIEWS

Interviews were held with the following Metro Fire staff between May 24 and May 26, 2011:

Finance Division Staff

Debbie Martin, Chief Financial Officer
Debbie Kelly, Accounting Supervisor
Matt Davies, Payroll Specialist
Nicole Collins, Accounting Technician
Zelma Houston, Accounting Technician
Dale Jones, Accounting Technician
Tara Maeller, Accounting Technician
Leslie Miller, Accounting Technician
Meda Angeles, Temporary Accountant
Marie Bernal, Temporary Accountant

Stakeholders

Kurt Henke, Fire Chief
Brian Rice, Deputy Chief
Mark Wells, Deputy Chief
Duane Arend, Deputy Chief
Bill Daniels, Assistant Chief
Larry Davis, Director of Economic Development
Mark Jones, Logistics Manager/Purchasing Agent
Mat Roseberry, Information Technology Director
Russell Blair, Interim Fire Marshal
Rusty Dupray, Government Affairs Coordinator
Steve Borglund, Facilities Supervisor

AUDITOR INTERVIEWS

Interviews were held with the following staff from Metro Fire's auditors (Richardson and Company) on May 23, 2011:

Joe Richardson, Managing Partner
Ingrid Shepline, Director of Audits
Rebecca McAllister, Manager

SACRAMENTO COUNTY STAFF INTERVIEW

Andrew Schmiedt, Accounting Manager, Sacramento County Department of Finance, Auditor-Controller Division, was interviewed on May 25, 2011.

CONSULTANT QUALIFICATIONS

Senior Financial Management Experience

Bill Statler has over 30 years of years of senior financial management experience, which included serving as the Director of Finance & Information Technology/City Treasurer for the City of San Luis Obispo for 22 years and as the Finance Officer for the City of Simi Valley for 10 years before that.

Under his leadership, the City of San Luis Obispo received national recognition for its financial planning and reporting systems, including:

- Award for Distinguished Budget Presentation from the Government Finance Officers Association of the United States and Canada (GFOA), with special recognition as an outstanding policy document, financial plan and communications device. *San Luis Obispo is one of only a handful of cities in the nation to receive this special recognition.*
- Awards for excellence in budgeting from the California Society of Municipal Finance Officers (CSMFO) in all four of its award budget categories: innovation, public communications, operating budgeting and capital budgeting. Again, *San Luis Obispo is among a handful of cities in the State to earn recognition in all four of these categories.*
- Awards for excellence in financial reporting from both the GFOA and CSMFO for the City's comprehensive annual financial reports.
- Recognition of the City's financial management policies as "best practices" by the National Advisory Council on State and Local Budgeting.

The financial strategies, policies and programs he developed and implemented resulted in strengthened community services and an aggressive program of infrastructure and facility improvements, while at the same time preserving the City's long-term fiscal health. This included taking a lead role in developing and presenting the community outreach and education program in preparation for a general purpose, ½-cent City sales tax measure, which was overwhelmingly adopted with 65% voter approval in November 2006.

Financial Management Services for Other Agencies

- City of Salinas: Five Year Fiscal Forecast
- City of Camarillo: Five Year Fiscal Forecast
- City of Ceres: Financial Operations Review
- City of Pismo Beach: Revenue Options Study
- City of Pismo Beach: Five Year Fiscal Forecast
- Cities of Arroyo Grande, Grover Beach, Pismo Beach and Oceano Community Services District: Solid Waste Rate Review of Proposed Rates from South County Sanitary Company
- City of Port Hueneme: Cost Allocation Plan
- City of Grover Beach: Water and Sewer Rate Reviews

APPENDIX G

- City of Grover Beach: Cost Allocation Plan
- City of Grover Beach: Financial Condition Assessment

Professional Leadership

- Member, Board of Directors, League of California Cities (League): 2008 to 2010
- Member, California Committee on Municipal Accounting: 2007 to 2010
- Budget and Fiscal Policy Committee Member, Government Finance Officers Association of the United States and Canada (GFOA): 2005 to 2009
- President, League Fiscal Officers Department: 2002 and 2003
- President, California Society of Municipal Finance Officers (CSMFO): 2001
- Member, Board of Directors, CSMFO: 1997 to 2001
- Chair, CSMFO Task Force on “GASB 34” Implementation
- Fiscal Officers Representative on League Policy Committees: Community Services, Administrative Services and Environmental Quality: 1992 to 1998
- Chair, Vice-Chair and Senior Advisor for CSMFO Committees: Technology, Debt, Career Development, Professional and Technical Standards and Annual Seminar Committees: 1995 to 2010
- Member, League Proposition 218 Implementation Guide Task Force
- Chair, CSMFO Central Coast Chapter: 1994 to 1996

Trainer

- League of California Cities
- Institute for Local Government
- California Debt and Investment Advisory Commission
- Government Finance Officers Association of the United States and Canada
- California Society of Municipal Finance Officers
- Municipal Management Assistants of Southern California and Northern California
- Humboldt County
- California Association of Local Agency Formation Commissions

Topics Included

- Long-Term Financial Planning
- The Power of Fiscal Policies
- Fiscal Health Contingency Planning
- Financial Analysis and Reporting
- Effective Project Management
- Providing Great Customer Service in Internal Service Organizations: The Strategic Edge
- Strategies for Downsizing Finance Departments in Tough Fiscal Times

APPENDIX G

- Top-Ten Skills for Finance Officers
- Telling Your Fiscal Story: Tips on Making Effective Presentations
- Transparency in Financial Management: Meaningfully Community Involvement in the Budget Process
- Financial Management for Non-Financial Managers
- Debt Management
- Preparing for Successful Revenue Ballot Measures
- Financial Management for Elected Officials
- Multi-Year Budgeting
- Integrating Goal-Setting and the Budget Process

Publications

- *Guide to Local Government Finance in California*, Solano Press, Fall 2011 (Co-Author)
- *Municipal Fiscal Health Contingency Planning*, Western City Magazine, November 2009
- *Understanding the Basics of County and City Revenue*, Institute for Local Government, 2008 (Contributor)
- *Financial Management for Elected Officials*, Institute for Local Government, 2010 (Contributor)
- *Getting the Most Out of Your City's Current Revenues: Sound Fiscal Policies Ensure Higher Cost Recovery for Cities*, Western City Magazine, November 2003
- *Local Government Revenue Diversification, Fiscal Balance/Fiscal Share and Sustainability*, Institute for Local Government, November 2002
- *Why Is GASB 34 Such a Big Deal?*, Western City Magazine, November 2000
- *Understanding Sales Tax Issues*, Western City Magazine, June 1997
- *Proposition 218 Implementation Guide*, League of California Cities, 1997 (Contributor)

Honors and Awards

- CSMFO Distinguished Service Award for Dedicated Service and Outstanding Contribution to the Municipal Finance Profession
- National Advisory Council on State and Local Government Budgeting: Recommended Best Practice (Fiscal Policies: User Fee Cost Recovery)
- GFOA Award for Distinguished Budget Presentation: Special Recognition as an Outstanding Policy Document, Financial Plan and Communications Device
- CSMFO Awards for Excellence in Operating Budget, Capital Improvement Plan, Budget Communication and Innovation in Budgeting
- GFOA Award of Achievement for Excellence in Financial Reporting

APPENDIX G

- CSMFO Certificate of Award for Outstanding Financial Reporting
- National Management Association Silver Knight Award for Excellence in Leadership and Management
- American Institute of Planners Award for Innovation in Planning

Additional information at www.bstatler.com