

**Examination of Certain Policies, Procedures, Controls, and
Financial Activity of the Elsmere Fire Protection District**



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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

November 20, 2014

Robert Stegman, Chairman
Elsmere Fire Protection District
320 Swan Circle
Elsmere, Kentucky 41018

RE: Findings and Recommendations

Dear Chairman Stegman:

We have completed our Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Elsmere Fire Protection District (District). This examination was initiated due to a citizen's concerns expressed to this office. The examination period, unless otherwise specified, was July 1, 2012 through August 26, 2014.

To address the concerns presented to this office, we requested and examined numerous District records including, but not limited to, Board meeting minutes, District budgets and modifications, District bank records, District credit card statements, and various District policies and procedures. In addition, auditors also interviewed current and former Board members, as well as certain District employees. The report presents 10 findings and several recommendations to strengthen the District's management and oversight practices.

The Auditor of Public Accounts requests a report from the District on the implementation of the examination recommendations within sixty (60) days of the completion of the final report. If you wish to discuss this report further, please contact me or Brian Lykins, Executive Director of the Office of Technology and Special Audits.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts

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Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Elsmere Fire Protection District

Examination Objectives

The Auditor of Public Accounts (APA), in response to concerns expressed to this office regarding certain financial and other activity of the Elsmere Fire Protection District (District), initiated an examination of specific issues involving the District. The examination included a review of certain District policies, internal controls, and financial transactions. To accomplish the examination, the APA developed the following specific examination objective:

- Analyze certain categories of financial activity for compliance with Board policies and evaluate various transactions and activities to determine whether they appear reasonable, excessive, necessary, or have a related business purpose.

The purpose of this examination was not to opine on the financial statements or to duplicate work of routine annual financial statement audits. Unless otherwise indicated, the examination period for this engagement was July 1, 2012 through August 26, 2014.

To address the concerns presented to this office, we requested and examined numerous District records including, but not limited to, Board meeting minutes, District budgets and modifications, District bank records, District credit card statements, and various District policies and procedures. In addition, auditors also interviewed current and former Board members, as well as certain District employees.

Though several of the concerns expressed to this office could not be substantiated during the examination, such as concerns of bonus payments paid to employees, auditors identified opportunities for improvement in District policies and procedures that will assist the District in strengthening its financial oversight and control of District funds. The findings and recommendations resulting from this examination are presented in this report.

Background

The District was created as a fire protection district authorized through Kentucky Revised Statute (KRS) Chapter 75. Per its bylaws, the purpose of the District is to “prevent and suppress fires and other similar hazards, to protect the lives and property of the public, and provide EMS and ALS services.” The District provides these fire protection services for the Elsmere area located in Kenton County, Kentucky. Firefighters at the District include both full-time and volunteer personnel.

The District is governed by a seven member Board, as established through KRS 75.031. Per the Board bylaws officially adopted on August 26, 2013, each year Board members “shall annually elect from their number a Chairman, a Secretary, and a Treasurer/Vice Chairman.” The bylaws state that each officer of the Board “shall serve a one year term, or until their resignation or their successors are elected.” As is required by statute, in the event of a vacancy during a Board member’s term, the Kenton County Judge/Executive shall appoint with the approval of the Fiscal Court a trustee for the remainder of the vacated term.

Financial Information

The District’s fiscal year (FY) begins July 1 and ends June 30. Each fiscal year, the Board engages the services of a CPA to perform a financial statement audit. The most recent financial statement audit report was issued on February 6, 2014. The following analysis is based on the most recent District financial statement audit report.

The majority of District revenues are derived from tax assessed on real and tangible property. In FY 2013, the real estate property tax rate for the District was \$0.197 of \$100 of valuation. The FY 2013 tangible property rate was \$0.188 per \$100 of valuation. Additional major revenue sources for the District’s general fund are grants, EMS billings, and interest income. In FY 2013, District revenues totaled approximately \$1.24 million with over \$988,000 from taxes and over \$182,500 resulting from ambulance billings.

In FY 2013, expenditures totaled over \$1.3 million with approximately \$1.1 million of this amount expended for salaries, wages, and employee benefits.

Findings and Recommendations

Finding 1: The District Board Chair entered into a new contract for District employee insurance without delegated authority or formal approval by the full Board.

The District was advised by its insurance provider that starting January 1, 2014, the provider was “no longer able to renew your current small group health benefit plan” and that the change was necessary “because your current plan doesn’t meet all the requirements of the new health care reform laws.” While the District’s plan would no longer be available, the insurer notified the District that it would be automatically transitioned into a new small group health benefit plan beginning March 1, 2014. However, details associated with the new plan offered by the insurer were not provided to the District for consideration until January 24, 2014, giving the District only a few weeks to make a determination on how to proceed before the March 1, 2014 deadline. A review of meeting minutes from the examination period found no discussion of the insurance issue or the existence of a new insurance carrier until April 28, 2014, when the Board Treasurer noted the increase in employee health insurance and discussed “the need to seek alternative option in attempt to reduce the budget line item.”

Recommendations: We recommend the full District Board be notified when issues effecting personnel benefits arise as the Board is responsible for approving these expenses. We further recommend that the Board discuss with its attorney including in the bylaws a requirement for the Board Chair to take business to the full Board or a quorum of the Board prior to taking action on behalf of the Board. Discussions should include the Board Chair’s authority to act in the case of an emergency and when any such action must be communicated to the Board. Further, based on budget concerns identified in meeting minutes and interviews with Board members, we recommend the District Board re-evaluate its practice of paying full premium for a family plan, and discuss other opportunities for reducing its costs such as evaluating its level of coverage or participating in a smoking cessation policy.

Finding 2: District distributed donated funds without requiring receipts or vendor invoices as evidence of how the funds were actually used by personnel.

The District confirmed that in 2010 a donation check from the church was deposited into the District’s firefighter recreation account on August 16, 2010, and

three gift cards were distributed to the three shift lieutenants to purchase items of their choice for the District’s kitchen. The EMS Coordinator stated that the District did not require proof of items purchased by the three lieutenants for the amount of the gift card provided to them, and that the only assurance that the funds were used for that purpose was personnel discussing what they had chosen to purchase with the funds for their shifts.

Recommendations: Though this appears to be an isolated incident, we recommend the District refrain from issuing gift cards to personnel to make purchases on behalf of the District. We recommend distributing funds through gift cards to personnel to make purchases on behalf of the District without requiring supporting documentation regarding the use of the funds should not be tolerated. Without adequate documentation, the District cannot ensure that the funds are used for the appropriate business purposes rather than used to personally benefit individuals. We recommend purchases follow the established procurement process instead of issuing gift cards in anticipation that purchases will be made for the District.

Finding 3: The District made a single per diem payment to one individual on behalf of District personnel for attending training.

Another concern expressed to this office related to the Chief requesting per diem for 12 District personnel attending training that was made in a single payment to the Chief. According to the District EMS Coordinator, the District has occasionally written a check to one individual with the expectation that the individual distribute the funds to the other attendees; however, auditors did not identify any such payments during the examination period. Upon request, the District provided auditors with documentation of instances of this practice occurring over the last 10 years. During the 10 year period, two such instances were identified. One per diem payment was made in 2006 for \$300 for five personnel attending training and in 2008, a \$270 payment for four personnel attending training. It should be noted that the payee in each of these instances was an attendee of the training. The \$300 payment was made to a Fire Lieutenant at the District, while the \$270 payment was made to a former Assistant Fire Chief. As for the specific instance cited by the complainant, District records document that the Chief received \$230 for per diem payments in September 2002 to disperse to 12 District personnel, including the Chief, for attending a two-day regional fire school training class. District records to support this transaction also document the names of the 12 intended recipients; however, no documentation was maintained that the intended recipients listed in the pay request actually received reimbursement.

Recommendations: Though the District has not paid per diem in this manner in recent years, we recommend the District not pay per diems in this manner or, at minimum, require each individual to sign the per diem request document attesting that they received the individual per diem amounts. This document should be retained to properly reflect final disposition of the funds were made appropriately.

Finding 4: The Board does not have a formal contract with its Board Attorney.

During the examination, auditors were advised that the District did not have a written contract with the Board attorney. The EMS Coordinator noted that the Board recently discussed a new rate structure with its attorney due to an increase in legal services needed over the last 24 month period. The EMS Coordinator noted that while the new rates were placed in the District budget, a formal agreement was not signed.

Recommendations: We recommend the Board ensure any agreement it enters into is documented in a formal written contract. Contracts entered into should specify the services the contractor will perform and the terms of the contract including the hourly rate or fixed amount charged for contracted services. The contract should include specific language requiring detailed invoices from a contractor to include a description of the work performed, the number of hours associated with each work step, and the rate at which services are being charged. If services are performed by individuals at various levels of responsibility or authority within the organization, the rates charged for those working at the various levels should also be specified.

Finding 5: District funds were expended to purchase a meal for a family member despite District policy.

The complainant states that an expense was incurred by the District for family members while attending a conference in Indiana. Through inquiry of District personnel, auditors discovered that the one-day conference in question was held in April 2012. Expenses associated with this conference were limited as free conference passes to the event were provided to the Chief and a firefighter to be used by those attending the conference. Personnel did not stay overnight so the District incurred only a meal expense for those attending the conference and parking fees. While family members were present at the meal, it appears, based on the information provided by the District, all those in attendance, with the exception of the young child, were eligible to attend the conference on behalf of the District. While the District could have paid the four personnel per diem for a total amount of \$120 based on District policy, the District instead stated that it saved \$19 by purchasing this one meal for all

attendees. Though, on this occasion, the District's cost for meals was slightly less by not following established per diem policy, situations could arise where not consistently following this policy may have the opposite outcome of costing the District more.

Recommendations: We recommend the District abide by its policies and not incur personal expenses on behalf of its personnel, volunteers, or others regardless of the amount of the expense.

Finding 6: The Board had no formal orientation and lacked clear communication and cooperation among all Board members resulting in discord and confusion.

While examining the concerns expressed to this office, auditors found the Board had no formal orientation and lacked clear communication and cooperation among all Board members resulting in discord and confusion. This was evident through both a review of Board meeting minutes and through interviews conducted with Board members. Though the lack of communication and resulting discord does not appear to have affected District services to date, such issues can have a detrimental impact on the Board serving the District in an effective and efficient manner.

Recommendations: If discrepancies or concerns are identified, we recommend District Board members openly communicate the issues in sufficient detail with the Board for matters to be addressed rather than allowing discrepancies to continue. We recommend the District Board receive an annual formal orientation for new and returning Board members to ensure the members have a clear understanding of the District, their role, as well as their legal and fiduciary responsibilities as Board members, and the purpose of the Board and its programs and services. This orientation should be mandatory for all Board members. We recommend the Board consider having an independent party, such as a Board attorney, with the responsibility to organize, facilitate, and oversee the annual Board orientation. We further recommend that Board members sign a statement attesting that they have received and read the orientation material and that those signed statements be due 30 days after the Board member's orientation. Finally, we recommend the Board members review and gain an understanding of the Kenton County Standards of Conduct to ensure compliance with these standards. The recommended Board orientation should also make Board members aware of these standards of conduct.

Finding 7: Not providing an effective reference to and clear placement of policy revisions in the District Personnel Policy Manual created confusion.

Auditors received a concern that personnel were receiving reimbursements in excess of District policy,

specifically noting that personnel were only allowed to be reimbursed up to \$400 annually for dental expenses. As a result of this review, it was determined the actual policy in effect for the examination period established a higher maximum reimbursement of \$800 for dental expenses and that no payments were made in excess of the allowed amount. While the concerns expressed to this office were not substantiated, the reason for the complainant's confusion is understandable. Instead of replacing the old policy in the District Personnel Policy Manual, the District simply added a note at the end of the original policy stating "See Updated Policy Dated: 7/1/2004" and then added the new policy as pages 75 and 76 at the end of the manual after the exhibits. Further, the District failed to make reference to the new pages in the Personnel Policy Manual's table of contents.

Recommendations: We recommend that the District Board routinely review its policies to ensure they remain current with Board expectations and industry standards. We further recommend Board action to revise District policy be clearly documented in meeting minutes and once policies are updated by the Board, the District should ensure policy revisions are dated and properly placed in the Personnel Policy Manual. New policies should be distributed to District Board members, personnel, and volunteers in an effort to ensure a clear understanding of the policy changes.

Finding 8: Timely reviews of credit card statements were not performed or properly documented in the absence of a Board Treasurer from September 2013 through December 2013.

Auditors found that timely reviews and appropriate approvals, specifically related to credit card expenses, were not consistently or clearly documented by the Board within District records. According to the District's documented internal control process, credit card transactions are reviewed and approved by the Board Treasurer. The District credit card statements processed from September 2013 through December 2013, when there was no Board Treasurer, were formally reviewed and approved at some level; however, the statements were not initialed or signed by a Board member until April 2014, after the Board elected a new Treasurer. While the District was without a Board Treasurer, the duties of the Treasurer were to be assumed by the Board Chair during the interim period.

Recommendations: Though more recent District financial records document that the current Board Treasurer is conducting timely reviews of credit card statements, the District Board should ensure such reviews and approvals are consistently performed in the future. If the Treasurer's position remains vacant, for

any period, we recommend the Board, as a body, discuss and document in meeting minutes how the responsibilities of the Treasurer will be delegated until such time as a new Treasurer can be elected. The individual(s) responsible for assuming the duties of the Treasurer during an interim period should ensure that their work is timely and that reviews and approvals are clearly documented in the financial records. We further recommend the Board periodically review the policies of the District to ensure they remain current with the operations of the District. Updated policies should include the revised policy date, be maintained centrally with all other current policies, and be disseminated to all personnel assigned a District credit card. We finally recommend the District implement a credit card user agreement and require personnel assigned a District credit card to sign a document acknowledging receipt of the credit card and District credit card policies. The user agreement should include the employee's responsibility regarding purchases, supporting documentation, payment, the restrictions placed on the credit card, the credit card cannot be used for personal expenses, and is to be used only for the official business of the District.

Finding 9: New restrictions were placed on Board member access to bank account information without action by the Board or disclosure to Board members.

During the examination, a concern was shared with our office regarding Board members' ability to request and receive District bank record information directly from the bank. The restriction, according to a letter signed by the Board Chair and former Board Treasurer dated September 15, 2013 to the District's banking institution, was placed in effect in an "effort to enhance the security of the Fire District's accounts." While the restriction was described to auditors as a clarification to the resolutions already in place at that time of the letter, it appears based on the language contained within the 2009 resolutions and the September 15, 2013 letter to the bank, that the restriction was entirely new. A review of Board meeting minutes for the examination period found no discussion among the Board of renewing the bank resolutions until March 2014.

Recommendations: We recommend the District Board update its bank resolutions, as needed, along with bank signature cards, for all District bank accounts immediately upon changes in Board membership to ensure proper access is granted to Board members. If modifications are made to existing bank resolutions, we recommend proposed modifications be presented to the full Board for discussion and consideration in a timely manner to ensure adequate disclosure to members and to avoid confusion among the Board membership.

Finding 10: Employee evaluations were not routinely performed as required by District policy.

Auditors found employee evaluations were not routinely performed as required by District policy. District policy states that the Fire Chief will perform employee evaluations and that the evaluations will be used “in determining salary changes, as a factor in determining order of lay-off, as a basis for training, promotion, demotion, transfer, or dismissal, and for such other purposes as set for in these regulations.” Chapter 9 of the Personnel Policy Manual indicates that evaluations will be performed “[o]n initial appointment or on promotions, all employees will be evaluated in writing at least after three months of service and at the completion of their probationary period or introductory promotion period and at least annually thereafter.”

Recommendations: We recommend the Board and Fire Chief ensure that employee performance evaluations are performed as prescribed by District policy. The evaluations should be documented in writing and maintained in District personnel records. Further, given the ease with which written evaluations ceased to be performed for approximately a decade, we recommend the Board annually receive a written statement from the Chief, upon completion of annual evaluations, that all annual written evaluations were completed and that this statement be entered into the Board meeting minutes.

Chapter 1

Introduction and Background

Scope and Objectives for Examination

The Auditor of Public Accounts (APA), in response to concerns expressed to this office regarding certain financial and other activity of the Elsmere Fire Protection District (District), initiated an examination of specific issues involving the District. The examination included a review of certain District policies, internal controls, and financial transactions. To accomplish the examination, the APA developed the following specific examination objective:

- Analyze certain categories of financial activity for compliance with Board policies and evaluate various transactions and activities to determine whether they appear reasonable, excessive, necessary, or have a related business purpose.

The purpose of this examination was not to opine on the financial statements or to duplicate work of routine annual financial statement audits. Unless otherwise indicated, the examination period for this engagement was July 1, 2012 through August 26, 2014.

To address the concerns presented to this office, we requested and examined numerous District records including, but not limited to, Board meeting minutes, District budgets and modifications, District bank records, District credit card statements, and various District policies and procedures. In addition, auditors also interviewed current and former Board members, as well as certain District employees.

Though several of the concerns expressed to this office could not be substantiated during the examination, such as concerns of bonus payments paid to employees, auditors identified opportunities for improvement in District policies and procedures that will assist the District in strengthening its financial oversight and control of District funds. The findings and recommendations resulting from this examination are presented in this report.

District Background

The District was created as a fire protection district authorized through Kentucky Revised Statute (KRS) Chapter 75. Per its bylaws, the purpose of the District is to “prevent and suppress fires and other similar hazards, to protect the lives and property of the public, and provide EMS and ALS services.” The District provides these fire protection services for the Elsmere area located in Kenton County, Kentucky. Firefighters at the District include both full-time and volunteer personnel.

Governance

The District is governed by a seven member Board, as established through KRS 75.031. Per KRS 75.031 the seven Board members are selected as follows:

Chapter 1

Introduction and Background

- Two members of the Board of trustees shall be elected by the members of the firefighters of the district and shall be members of the district.
- Two members of the Board of trustees shall be elected by property owners, and must personally reside in the district and are not active firefighters.
- Three are appointed by the Kenton County Judge/Executive, with approval by the Kenton County Fiscal Court.

Per the Board bylaws officially adopted on August 26, 2013, each year Board members “shall annually elect from their number a Chairman, a Secretary, and a Treasurer/Vice Chairman.” The bylaws state that each officer of the Board “shall serve a one year term, or until their resignation or their successors are elected.” As is required by statute, in the event of a vacancy during a Board member’s term, the Kenton County Judge/Executive shall appoint with the approval of the Fiscal Court a trustee for the remainder of the vacated term.

Financial Information

The District’s fiscal year (FY) begins July 1 and ends June 30. Each fiscal year, the Board engages the services of a CPA to perform a financial statement audit. The most recent financial statement audit report was issued on February 6, 2014. The following analysis is based on the most recent District financial statement audit report.

Revenues and Expenditures

The majority of District revenues are derived from tax assessed on real and tangible property. In FY 2013, the real estate property tax rate for the District was \$0.197 of \$100 of valuation. The FY 2013 tangible property rate was \$0.188 per \$100 of valuation. Additional major revenue sources for the District’s general fund are grants, EMS billings, and interest income. In FY 2013, District revenues totaled approximately \$1.24 million with over \$988,000 from taxes and over \$182,500 resulting from ambulance billings.

In FY 2013, expenditures totaled over \$1.3 million with approximately \$1.1 million of this amount expended for salaries, wages, and employee benefits.

Findings and Recommendations

Finding 1: The District Board Chair entered into a new contract for District employee insurance without delegated authority or formal approval by the full Board.

This office received a concern related to the selection of a new insurance provider. Specifically, the complainant questioned the need for a new insurer and the expedited manner by which the District changed insurers. Further, the complainant noted that a Board member is employed by the insurer and is concerned whether the Board member’s employment with the insurer influenced the District’s selection process.

To address this concern, auditors requested and reviewed District records associated with the selection of a new insurance provider. Based on District records, it appears the District was advised by its insurance provider that starting January 1, 2014, the provider was “no longer able to renew your current small group health benefit plan” and that the change was necessary “because your current plan doesn’t meet all the requirements of the new health care reform laws.” While the District’s plan would no longer be available, the insurer notified the District that it would be automatically transitioned into a new small group health benefit plan beginning March 1, 2014. However, details associated with the new plan offered by the insurer were not provided to the District for consideration until January 24, 2014, giving the District only a few weeks to make a determination on how to proceed before the March 1, 2014 deadline.

District records document that an insurance broker previously used by the District provided the District with an analysis comparing the plan offered by the District’s insurer to plans available through another insurer. The comparison showed the District’s existing plan from the current vendor, an alternate plan offered by the current vendor, and several plans offered through another vendor. According to the insurance broker, the broker’s firm, independent of District Board members or staff, identified and presented plan information to be compared to the plan the District’s current insurer offered. The insurance broker stated that the new plans identified were the most competitive in the market and for that reason were presented to the District on February 18, 2014, as potential options for new insurance. According to a District official, those involved in the selection of the plan included the Board Chair, the Board Treasurer, the Chief, and the EMS Coordinator. Email correspondence between the broker and the District, provided by the EMS Coordinator, show additional requests for plan information were made as late as February 27, 2014. Once the new plan was selected, the Board chair applied for the new insurance plan with a different carrier on February 28, 2014. No evidence was found to indicate that the Board member affiliated with the new insurance carrier benefited or influenced the selection of the new insurance policy.

A review of meeting minutes from the examination period found no discussion of the insurance issue or the existence of a new insurance carrier until April 28, 2014, when the Board Treasurer noted the increase in employee health insurance and discussed “the need to seek alternative option in attempt to reduce the budget line item.”

Chapter 2

Findings and Recommendations

In discussing the matter with the Board Chair, he noted that the selection of a new insurance carrier is typically discussed and voted on by the Board, stating that most issues go before the Board for discussion. While the Board Chair could not recall exactly how things were handled in this instance, he recalled that the District had a quick turn-around period for a decision to be made. The Board Treasurer, who had just taken office on February 24, 2014, also noted there was a quick turn-around period to address the issue and recalled that “because of the timing of it, we weren’t able to bring it to the full Board, we had to make a decision.” However, meeting minutes document that the Board met on January 24, 2014, after being notified of the alternative options made available by its carrier, and again on February 24, 2014, several days after being provided competitive options by its broker and days before the Board Chair completed an application for new insurance.

While auditors recognize the District’s need to select a new insurance plan before March 1, 2014, and that the approach taken to identify different potential plan options for consideration appears reasonable, auditors question why the issue of employee insurance was not presented to the full Board for discussion and approval among its members or for the Board to authorize the Board Chair to act on behalf of the Board and the District.

Recommendations

We recommend the full District Board be notified when issues effecting personnel benefits arise as the Board is responsible for approving these expenses. We further recommend that the Board discuss with its attorney including in the bylaws a requirement for the Board Chair to take business to the full Board or a quorum of the Board prior to taking action on behalf of the Board. Discussions should include the Board Chair’s authority to act in the case of an emergency and when any such action must be communicated to the Board.

Further, based on budget concerns identified in meeting minutes and interviews with Board members, we recommend the District Board re-evaluate its practice of paying full premium for a family plan, and discuss other opportunities for reducing its costs such as evaluating its level of coverage or participating in a smoking cessation policy.

Finding 2: District distributed donated funds without requiring receipts or vendor invoices as evidence of how the funds were actually used by personnel.

The complainant expressed a concern questioning whether it was appropriate use of taxpayer funds for District personnel to be assigned for duty at a local annual church festival and whether a donation from the church was properly accounted for. The complainant believes the church festival to be a private event and that the \$300 check donated by the church was cashed by the District in 2011 with the funds distributed to three District lieutenants.

Bank statements for all District accounts, during the examination period, were requested to identify whether donations provided to the District in 2011 were properly deposited. In addition, all monthly financial reports presented to the Board at regularly scheduled meetings were reviewed for the examination period to determine whether the donations were reported or discussed with the Board. Auditors found that amounts donated, during the examination period, were deposited into the District depository account and reported to the Board in the monthly financial reports.

Documentation of the accounting for the 2011 donation from the church was reviewed. According to District records, the \$300 donation from the church received on September 6, 2011, was deposited into a District bank account on September 21, 2011. Because the deposit of the 2011 donation from the church was identified, additional inquiries were made in an attempt to identify any other time when a donation check was potentially cashed and distributed directly to District personnel.

The District confirmed that in 2010 a donation check from the church was deposited into the District's firefighter recreation account on August 16, 2010, and three gift cards were distributed to the three shift lieutenants to purchase items of their choice for the District's kitchen. The EMS Coordinator stated that the District did not require proof of items purchased by the three lieutenants for the amount of the gift card provided to them, and that the only assurance that the funds were used for that purpose was personnel discussing what they had chosen to purchase with the funds for their shifts.

As for the use of personnel to work at the annual church festival, the District stated that it is involved in many events throughout the city providing fire-safety and other related services to the public, including street and neighborhood block parties throughout the city, Easter egg hunts at community parks, teaching fire extinguisher classes at local businesses, and fire drills at local schools. The church festival is one such event. The EMS Coordinator stated that the District has participated in this annual event since 1986 and that the event draws the largest crowd in the city. According to District officials, the services provided during the annual festival include fire-safety education, blood pressure checks, stroke recognition and awareness education, smoke detector distribution, CO detector program information, and various other services. It is our understanding, from speaking with a representative of the Kentucky Fire Commission that such activities are typically provided by Fire Districts at local events.

Findings and Recommendations

Further, the District noted that personnel are not paid by the church to work at this event and are expected to leave the event at any time their services are needed elsewhere in the District service area. Based on the information provided by the District, it does not appear that the services provided by the District at the church event are in conflict with the District’s service to taxpayers. It would appear that the decision to participate in this event is a management decision that could be addressed by the District’s Board.

Recommendations

Though this appears to be an isolated incident, we recommend the District refrain from issuing gift cards to personnel to make purchases on behalf of the District. We recommend distributing funds through gift cards to personnel to make purchases on behalf of the District without requiring supporting documentation regarding the use of the funds should not be tolerated. Without adequate documentation, the District cannot ensure that the funds are used for the appropriate business purposes rather than used to personally benefit individuals. We recommend purchases follow the established procurement process instead of issuing gift cards in anticipation that purchases will be made for the District.

Finding 3: The District made a single per diem payment to one individual on behalf of District personnel for attending training.

Another concern expressed to this office related to the Chief requesting per diem for 12 District personnel attending training that was made in a single payment to the Chief. The complainant states the Chief was to distribute the per diem to each of the 12 District personnel who attended the training. The complainant questioned whether per diems are acceptable and whether the money should be paid to the Chief to distribute to other personnel.

According to Chapter 12 of the District Personnel policy “[a]ny training being conducted out-of-town, the District will furnish lodging and \$30 per day per diem per student during the course of the training.” Based on the District’s policy, it appears per diem reimbursements are appropriate for employee and volunteer expenses during days of training.

According to the District EMS Coordinator, the District has occasionally written a check to one individual with the expectation that the individual distribute the funds to the other attendees; however, auditors did not identify any such payments during the examination period. Upon request, the District provided auditors with documentation of instances of this practice occurring over the last 10 years. During the 10 year period, two such instances were identified. One per diem payment was made in 2006 for \$300 for five personnel attending training and in 2008, a \$270 payment for four personnel attending training. In each instance, while District records included the name of the intended recipients benefitted by the per diem, the payments were made to one individual with no documentation that the intended recipients listed on the pay request actually received the reimbursement. It should be noted that the payee in each of these instances was an attendee of the training. The \$300 payment was made to a Fire Lieutenant at the District, while the \$270 payment was made to a former Assistant Fire Chief.

Findings and Recommendations

As for the specific instance cited by the complainant, District records document that the Chief received \$230 for per diem payments in September 2002 to disperse to 12 District personnel, including the Chief, for attending a two-day regional fire school training class. District records to support this transaction also document the names of the 12 intended recipients; however, no documentation was maintained that the intended recipients listed in the pay request actually received reimbursement.

Recommendations Though the District has not paid per diem in this manner in recent years, we recommend the District not pay per diems in this manner or, at minimum, require each individual to sign the per diem request document attesting that they received the individual per diem amounts. This document should be retained to properly reflect final disposition of the funds were made appropriately.

Finding 4: The Board does not have a formal contract with its Board Attorney.

During the examination, auditors were advised that the District did not have a written contract with the Board attorney. The EMS Coordinator noted that the Board recently discussed a new rate structure with its attorney due to an increase in legal services needed over the last 24 month period. The EMS Coordinator noted that while the new rates were placed in the District budget, a formal agreement was not signed.

Recommendations We recommend the Board ensure any agreement it enters into is documented in a formal written contract. Contracts entered into should specify the services the contractor will perform and the terms of the contract including the hourly rate or fixed amount charged for contracted services. The contract should include specific language requiring detailed invoices from a contractor to include a description of the work performed, the number of hours associated with each work step, and the rate at which services are being charged. If services are performed by individuals at various levels of responsibility or authority within the organization, the rates charged for those working at the various levels should also be specified.

Finding 5: District funds were expended to purchase a meal for a family member despite District policy.

The complainant states that an expense was incurred by the District for family members while attending a conference in Indiana. The complainant specifically questioned why other firefighters were not offered the tickets provided to the District for personnel to attend the conference instead of two children using the conference tickets. The complainant also questioned the expenditure of District funds to purchase a meal for the two children attending the conference dinner.

Through inquiry of District personnel, auditors discovered that the one-day conference in question was held in April 2012. According to the District EMS Coordinator, expenses associated with this conference were limited as free conference passes to the event were provided to the Chief and a firefighter to be used by those attending the conference. Further, though policy states the District will provide a per diem to personnel attending training, the District paid the actual meal expenses for the individuals attending the conference. Personnel did not stay overnight so the District incurred only a meal expense for those attending the conference and parking fees.

Findings and Recommendations

The meal expense of \$101 was charged to the District credit card assigned to the Chief, and was described in a monthly purchase summary as a “lunch for (5) personnel FDIC Indianapolis.” The receipt from the lunch documents that the expense included a meal for a child. Through further review of the supporting documentation for this meal expense, auditors found the documentation did not specify the names of the individuals in attendance at this meal. The EMS Coordinator stated that she thought five District personnel attended the conference but recently learned that a volunteer who was to attend the conference cancelled, leaving only four who attended.

Based on notes maintained by the Chief, District personnel attending the conference who had a meal purchased by the District were the Chief, the former Assistant Chief, an active firefighter and EMT (son of the former Assistant Chief), the firefighter and EMT’s young son, and a District volunteer since 2011 (son of the Chief). While family members were present at the meal, it appears, based on the information provided by the District, all those in attendance, with the exception of the young child, were eligible to attend the conference on behalf of the District. According to the former Assistant Chief, whose grandson attended the meal, after the expense was incurred, he offered to reimburse the District for the personal expense; however, after discussion by the Board, no action was taken on the matter. According to the EMS Coordinator, after considering the matter, the Board and its legal counsel determined that the expense was within the District’s guidelines as the District would have expended more than the amount of the total meal had the per diem been paid to the four personnel. While the District could have paid the four personnel per diem for a total amount of \$120 based on District policy, the District instead stated that it saved \$19 by purchasing this one meal for all attendees. Though, on this occasion, the District’s cost for meals was slightly less by not following established per diem policy, situations could arise where not consistently following this policy may have the opposite outcome of costing the District more.

Though the amount of the meal was less expensive than paying per diem, the District Personnel policy, Chapter 12, Section 3 *Travel*, states “[s]pouses or others can accompany the person on travel. The district will pay 50% of the room costs and the remaining costs are the responsibility of the employee/volunteer.” This section of policy indicates that personal expenses of family members not serving the District should be covered by the employee/volunteer and not the District.

Recommendations

We recommend the District abide by its policies and not incur personal expenses on behalf of its personnel, volunteers, or others regardless of the amount of the expense.

Findings and Recommendations

Finding 6: The Board had no formal orientation and lacked clear communication and cooperation among all Board members resulting in discord and confusion.

While examining the concerns expressed to this office, auditors found the Board had no formal orientation and lacked clear communication and cooperation among all Board members resulting in discord and confusion. This was evident through both a review of Board meeting minutes and through interviews conducted with Board members. Though the lack of communication and resulting discord does not appear to have affected District services to date, such issues can have a detrimental impact on the Board serving the District in an effective and efficient manner.

Discussions with current and former Board members regarding any concerns related to the District found the majority of members voiced no concern about the activities or operation of the District. However, several members expressed concern related to communication and cooperation between all Board members. During interviews, many Board members noted that issues were raised by a Board member but when asked for specific information details were not shared with other members, preventing the Board from having the opportunity to fully discuss and address the issues raised. By not openly sharing detailed information or discussing issues, many of the Board members interviewed indicated that they were confused as to the intent or purpose of the Board member's actions.

Board meeting minutes from April 28, 2014, document one such occurrence when a Board member posed numerous questions and alluded to financial discrepancies but when asked to provide details and to further discuss the issues with the Board, the meeting minutes indicated that the member refused. According to the approved Board meeting minutes, the Board attorney stated if the Board member was aware of discrepancies it was the Board member's duty to make the rest of the Board aware of the issues. In response, the Board member stated "it is the duty of each Board member to educate themselves and find the issues themselves." The Board member then stated that she "should not be responsible for bringing the items forward."

The Board member acknowledged making these statements but stated that she had brought forward details of concerns before with no action taken by the Board. The Board member indicated that she had, in this instance, brought details of her concerns to the Board but the official minutes do not reflect that the Board member provided any details affiliated with this concern. While Board members may independently educate themselves, withholding information from the Board is counterproductive to the Board's role in providing proper governance to the District. Furthermore, based on the Kenton County Standards of Conduct, which appear to be applicable to this Board per KRS 65A.070, the refusal to disclose known discrepancies or concerns may violate these standards.

Chapter 2

Findings and Recommendations

Section 35.10 of the Kenton County Standards of Conduct states:

County elected officials, appointed officials and county government employees should respect and comply with the laws of the Commonwealth of Kentucky and its political subdivisions and should conduct themselves at all times in a manner that promotes public confidence in the integrity and impartiality of county government.

Further, it states:

This fiduciary duty imposes the obligation to act in the public's best interest through the county government agencies in which the person is employed or serves.

Withholding information or alluding to issues without fully communicating sufficient information to the Board does not appear to be in the District's or public's best interest as it leads to confusion, discord, and could negatively impact the operations of this vital public resource.

Recommendations If discrepancies or concerns are identified, we recommend District Board members openly communicate the issues in sufficient detail with the Board for matters to be addressed rather than allowing discrepancies to continue.

We recommend the District Board receive an annual formal orientation for new and returning Board members to ensure the members have a clear understanding of the District, their role, as well as their legal and fiduciary responsibilities as Board members, and the purpose of the Board and its programs and services. This orientation should be mandatory for all Board members. We recommend the Board consider having an independent party, such as a Board attorney, with the responsibility to organize, facilitate, and oversee the annual Board orientation. We further recommend that Board members sign a statement attesting that they have received and read the orientation material and that those signed statements be due 30 days after the Board member's orientation.

Finally, we recommend the Board members review and gain an understanding of the Kenton County Standards of Conduct to ensure compliance with these standards. The recommended Board orientation should also make Board members aware of these standards of conduct.

Findings and Recommendations

Finding 7: Not providing an effective reference to and clear placement of policy revisions in the District Personnel Policy Manual created confusion.

Auditors received a concern that personnel were receiving reimbursements in excess of District policy, specifically noting that personnel were only allowed to be reimbursed up to \$400 annually for dental expenses. To examine this issue, auditors requested and examined the District employee personnel policies and a list of all travel and expense reimbursements made to Board members and District personnel for the period July 1, 2012 to present date. In addition, auditors selected a sample of reimbursements to examine the original supporting documentation to ensure payments were in compliance with District’s Personnel Policy Manual. As a result of this review, it was determined the actual policy in effect for the examination period established a higher maximum reimbursement of \$800 for dental expenses and that no payments were made in excess of the allowed amount. Further, appropriate receipts were provided to substantiate the reimbursements.

While the concerns expressed to this office were not substantiated, the reason for the complainant’s confusion is understandable. The table of contents of the District’s Personnel Policy Manual directs readers to Chapter 18, pages 49-50, for the employee dental and vision care plan; however, the policy contained in Chapter 18 is outdated and states that the maximum family benefit is \$400 annually for dental care. Instead of replacing the old policy in the District Personnel Policy Manual, the District simply added a note at the end of the original policy stating “See Updated Policy Dated: 7/1/2004” and then added the new policy as pages 75 and 76 at the end of the manual after the exhibits. Further, the District failed to make reference to the new pages in the Personnel Policy Manual’s table of contents.

In addition, while the District policy indicates that the policy was revised in 2004, meeting minutes from this period do not specifically identify that the policy was revised by formal action of the Board. According to District personnel, the policy was revised by the Board in 2004, during the Board’s budget process, as the budget for this benefit was increased. Board meeting minutes from May 19, 2004, document the Board’s vote to adopt the 2004-2005 District budget; however, no reference is specifically made to revising District policies. The EMS Coordinator confirmed that the revised policy was included in the Board meeting packet for the May 2004 meeting and that the matter was presented to the Board as part of the budget.

Recommendations

We recommend that the District Board routinely review its policies to ensure they remain current with Board expectations and industry standards. We further recommend Board action to revise District policy be clearly documented in meeting minutes and once policies are updated by the Board, the District should ensure policy revisions are dated and properly placed in the Personnel Policy Manual. New policies should be distributed to District Board members, personnel, and volunteers in an effort to ensure a clear understanding of the policy changes.

Findings and Recommendations

Finding 8: Timely reviews of credit card statements were not performed or properly documented in the absence of a Board Treasurer from September 2013 through December 2013.

A complainant questioned whether two meal expenses occurring in calendar year 2010 were an appropriate use of District funds. Because of the date of these two expenditures, it was determined that the most effective manner to address the issue was to examine more recent District financial records in an attempt to identify potential excessive spending by the District. A sample of transactions was selected to determine whether the sampled expenses were reasonable in amount, adequately supported, contained a clear business purpose, reviewed, and approved in a timely manner.

A review was performed of certain District financial records including bank statements for all district accounts, a list of total amounts paid for all direct vendor payments, credit card statements, and expense reimbursements, for the period July 1, 2012 to present August 26, 2014. An initial review of these records did not identify any specific excessive or wasteful spending by the District. However, though no indication of wasteful spending was identified during an initial review, a sample of transactions from the examination period was selected for further testing.

Auditors found the transactions tested had adequate supporting documentation, a clear documented business purpose, and a reasonable purchase amount. However, auditors found that timely reviews and appropriate approvals, specifically related to credit card expenses, were not consistently or clearly documented by the Board within District records. According to the District's documented internal control process, credit card transactions are reviewed and approved by the Board Treasurer. The District credit card statements processed from September 2013 through December 2013, when there was no Board Treasurer, were formally reviewed and approved at some level; however, the statements were not initialed or signed by a Board member until April 2014, after the Board elected a new Treasurer. While the District was without a Board Treasurer, the duties of the Treasurer were to be assumed by the Board Chair during the interim period.

Further, while a District credit card policy existed, it appears the policy was not updated since it was originally established in 1989. The EMS Coordinator noted that the policy provided to auditors was clearly outdated as it referenced certain terms not used at the District for eight to ten years. The Coordinator noted that the Chief had, over the years, provided this policy to personnel assigned a credit card; however, credit card holders were not required by the District to sign a user agreement or any affidavit acknowledging receipt of the policy.

Findings and Recommendations

Recommendations Though more recent District financial records document that the current Board Treasurer is conducting timely reviews of credit card statements, the District Board should ensure such reviews and approvals are consistently performed in the future. If the Treasurer’s position remains vacant, for any period, we recommend the Board, as a body, discuss and document in meeting minutes how the responsibilities of the Treasurer will be delegated until such time as a new Treasurer can be elected. The individual(s) responsible for assuming the duties of the Treasurer during an interim period should ensure that their work is timely and that reviews and approvals are clearly documented in the financial records.

We further recommend the Board periodically review the policies of the District to ensure they remain current with the operations of the District. Updated policies should include the revised policy date, be maintained centrally with all other current policies, and be disseminated to all personnel assigned a District credit card.

We finally recommend the District implement a credit card user agreement and require personnel assigned a District credit card to sign a document acknowledging receipt of the credit card and District credit card policies. The user agreement should include the employee’s responsibility regarding purchases, supporting documentation, payment, the restrictions placed on the credit card, the credit card cannot be used for personal expenses, and is to be used only for the official business of the District.

Finding 9: New restrictions were placed on Board member access to bank account information without action by the Board or disclosure to Board members.

During the examination, a concern was shared with our office regarding Board members’ ability to request and receive District bank record information directly from the bank. The restriction, according to a letter signed by the Board Chair and former Board Treasurer dated September 15, 2013 to the District’s banking institution, was placed in effect in an “effort to enhance the security of the Fire District’s accounts.”

While the Board Chair could not recall the events resulting in the letter, the former Treasurer recalled that the letter was in response to the bank contacting the District about the activities of one of its Board members and the resolution the District signed upon establishing its accounts at the bank requiring “that two signatures are required for transactions with the bank.” The EMS Coordinator confirmed that the bank contacted the District after one of its Board members, who had not been party to the original 2009 resolutions, made requests for records directly to the bank. Both the former Treasurer and the EMS Coordinator believed that the restriction was a clarification of the existing bank resolution from 2009, rather than any new restriction or policy. The former Treasurer could not recall if the matter was discussed with other Board members but stated that “other members of the Board were aware of the required two signatures for all the accounts of the district.” Further, the EMS Coordinator noted that the restriction does not prevent Board members from obtaining bank information, noting that the information can be requested and provided to members through the District.

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While the restriction was described to auditors as a clarification to the resolutions already in place at that time of the letter, it appears based on the language contained within the 2009 resolutions and the September 15, 2013 letter to the bank, that the restriction was entirely new.

According to the 2009 resolutions two signatures were required to:

- (3) Endorse checks and orders for the payment of money or otherwise withdraw or transfer funds on deposit with this Financial Institution.
- (4) Borrow money on behalf and in the name of the Association, sign, execute and deliver promissory notes or other evidence of indebtedness.

The letter dated September 15, 2013, specifically stated:

In effort to enhance the security of the Fire District's accounts, please add the requirement of having two authorized signers when obtaining any copies or information on the accounts in the name of the Elsmere Fire District.

A review of Board meeting minutes for the examination period found no discussion among the Board of renewing the bank resolutions until March 2014. According to the EMS Coordinator, while bank signature cards were updated as membership on the Board changed, the resolutions had not been updated between 2009 and 2014 as they should have been to reflect the current membership of the Board.

Recommendations

We recommend the District Board update its bank resolutions, as needed, along with bank signature cards, for all District bank accounts immediately upon changes in Board membership to ensure proper access is granted to Board members.

If modifications are made to existing bank resolutions, we recommend proposed modifications be presented to the full Board for discussion and consideration in a timely manner to ensure adequate disclosure to members and to avoid confusion among the Board membership.

Finding 10: Employee evaluations were not routinely performed as required by District policy.

Auditors found employee evaluations were not routinely performed as required by District policy. District policy states that the Fire Chief will perform employee evaluations and that the evaluations will be used "in determining salary changes, as a factor in determining order of lay-off, as a basis for training, promotion, demotion, transfer, or dismissal, and for such other purposes as set for in these regulations." Chapter 9 of the Personnel Policy Manual indicates that evaluations will be performed "[o]n initial appointment or on promotions, all employees will be evaluated in writing at least after three months of service and at the completion of their probationary period or introductory promotion period and at least annually thereafter."

Findings and Recommendations

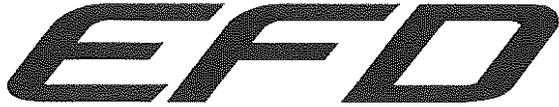
Per the EMS Coordinator, no written evaluations for District personnel have been performed in approximately 10 years. According to the Chief, the duty of performing employee evaluations for District personnel was assigned by him to the former Assistant Chief. However, the Chief noted that a performance evaluation had also not been performed for the former Assistant Chief, which was still the duty of the Chief. The Chief was unable to provide an explanation as to why the evaluations had not been performed.

Though no explanation could be provided as to why evaluations were not performed, the Chief and EMS Coordinator both noted that the former Assistant Chief had recently retired and that a new Assistant Chief was appointed Assistant Chief in September. The Chief stated that the new Assistant Chief was currently working to update evaluation forms and hopes to get the District personnel evaluation process started in the next few weeks.

In discussing this matter with the Chief, auditors also found that the Chief has not received an evaluation in a number of years stating that he could not recall when he last received an evaluation by the Board. Though District policy does not specifically identify the requirement for the Board to perform an annual evaluation of the Fire Chief, the Fire Chief is an employee of the District and, as such, would be subject to an annual evaluation just as all other employees. Given that the Chief reports to the Board, it appears the Board has also failed to ensure a formal written performance evaluation of the Chief was completed. As is stated in District policy, “[t]he responsibility and authority for the implementation and enforcement of these policies are vested in the Fire District Board and the Fire Chief.”

Recommendations We recommend the Board and Fire Chief ensure that employee performance evaluations are performed as prescribed by District policy. The evaluations should be documented in writing and maintained in District personnel records. Further, given the ease with which written evaluations ceased to be performed for approximately a decade, we recommend the Board annually receive a written statement from the Chief, upon completion of annual evaluations, that all annual written evaluations were completed and that this statement be entered into the Board meeting minutes.

ELSMERE FIRE PROTECTION DISTRICT RESPONSE



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November 17, 2014

Auditor of Public Accounts
209 St. Clair Street
Frankfort, Kentucky 40601-1817

**Re: Draft Report of Examination of Certain Policies, Procedures, Controls, and
Financial Activity of the Elsmere Fire Protection District**

Dear Mr. Edelen,

On behalf of the Elsmere Fire District, please accept this letter in response to your draft report of the Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Elsmere Fire District. The draft report was received on Monday November 10, 2014, and our response is due Tuesday November 18, 2014.

Your draft report sets forth various recommendations for procedural improvements; these recommendations will be reviewed and discussed by the Board Trustees and staff at such time as your report is made public. Some of the procedural recommendations discussed in the draft report have already been addressed. We will be preparing a thorough response to your final report addressing each of your recommendations. Our response to your final report will be provided within sixty (60) days of the issuance of the final report.

In closing, I wish to express our appreciation to you and your staff on the professional and thorough manner in which this examination was conducted.

Sincerely

Robert Stegman, Chairman
Elsmere Fire District