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November 2, 1998

Governing Board
Puerco Valley Fire District

We have conducted a limited investigation of the alleged theft of public monies during the period of July 1993 through October 1995 at the Puerco Valley Fire District. The purpose of our investigation was to determine the amount of money misappropriated during that period, if any, and whether the District's internal control structure and its operation relevant to its cash receipts and disbursements were adequate to prevent their misappropriation.

Subsequent to the completion of this investigation, former Emergency Services Director, John Harris, entered into a plea agreement with the Apache County Attorney's Office in which he pled guilty to four counts of theft (A.R.S. §13-1802). John Harris' wife, Betty Harris, also entered into a plea agreement with the Apache County Attorney's Office in which she pled guilty to one count of theft (A.R.S. §13-1802).

Our limited investigation consisted primarily of inquiries and examination of selected records and other documentation. Therefore, our investigation was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on the adequacy of the financial records or the internal control structure of the Puerco Valley Fire District, or ensure disclosure of all matters involving the District's internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants or other conditions that may require correction or improvement.

Background

The Puerco Valley Fire District is a volunteer fire district in Apache County, Arizona. In 1995, the District had 3 full-time employees and as many as 35 volunteers. The District provides a number of services to its residents such as fire protection, fire prevention, search and rescue operations, and hazardous material disposal. The District also operates an ambulance service that provides emergency medical services to the District. Approximately \$300,000 was expended during fiscal year 1994-95 by the District to provide fire services and approximately \$40,000 was expended by the ambulance service. The District's fire services are paid for through property taxes collected by the Apache County Treasurer's Office. The ambulance service is self-supporting, operating on service revenues it collects from customers and their insurance companies.

The Puerco Valley Fire District Board hired John Harris in 1985. Harris was responsible for overseeing the daily operations of both the fire department and the ambulance service. His duties included the supervision and training of the District's employees and volunteers, and managing the maintenance of the District's vehicles and equipment. Harris was also responsible for preparing the District's annual budget, expending District monies, maintaining the District's financial records, and preparing expenditure reports for the Board. In 1991, Harris employed his wife, Betty Harris, as an Intermediate Emergency Medical Technician for the District.

The Board placed Harris on administrative leave with pay on October 19, 1995. Harris remained on administrative leave until his resignation on January 30, 1996. In his resignation letter to the Board, Harris stated that he was resigning after allegations involving illegal drug use, misuse of District monies, and violations of District policy had been made.

Our findings and recommendations as a result of our limited investigation are set forth below.

Misuse of Public Monies from the District's Warrant Account

The District had an account with the Apache County Treasurer's Office for which each of the District's board members was an authorized signer. John Harris committed theft by misdirecting \$3,052 from this account for his own personal use. Harris also misused public monies by misdirecting at least \$6,407 in alleged reimbursements to himself from this account for which there were no documents to support his original expenditures. Therefore, Harris misdirected \$9,459 of public monies from the District's warrant account.

Harris prepared warrants and recorded disbursements for this account. He then presented the prepared warrants to an individual member of the Board for signature. Board members stated that they did not review the supporting documentation for the warrants nor did they closely examine the expenditure reports Harris provided. Furthermore, these questionable disbursements of \$9,459 were never approved by the Board in a public meeting as required by the District's policy.

During the period covered by our investigation, no reconciliations were performed on the warrant account from the District's records to the monthly statements and canceled warrants provided by the Apache County Treasurer's Office.

Recommendations

The Board should examine the supporting source documents for all District expenditures. These documents would include, but not be limited to, vendor invoices and statements, and receipts for employee reimbursements.

To properly control and safeguard cash, the District should segregate the cash-handling and recordkeeping functions among employees. An employee who is not responsible for handling

cash, issuing checks, or issuing warrants should prepare monthly reconciliations to the Apache County Treasurer's Office statements. If the employee who prepares these reconciliations must also perform cash-handling and/or cash recordkeeping functions, a supervisor or board member should review and approve the reconciliations.

In addition, to ensure that all expenditures are properly reported to the Board, a person independent of cash-handling duties should reconcile the expenditure reports prepared for the Board to the District's warrant register.

Misuse of Public Monies from the District's Bank Accounts

District monies were also deposited and disbursed from three separate Board-authorized bank accounts. One of these accounts was the operating account for the District's ambulance service. The second account was an imprest petty cash account. The third account was an account set up for the deposit of monies the District received for providing services outside the normal scope of its operations, such as the cleanup of hazardous material spills on an interstate highway, and providing personnel and equipment to fire scenes outside the District.

John Harris committed theft by misdirecting \$5,307 from these accounts for his own personal use. He also misused public monies by misdirecting at least \$21,050 from these accounts in alleged reimbursements to himself for which there were no documents to support his original expenditures. Furthermore, Harris misdirected another \$13,717 to his wife for services she did not perform. Therefore, John Harris misdirected \$40,074 in public monies from the District's bank accounts.

John Harris was responsible for the accounting of all transactions in the accounts, including making deposits, signing checks, and recording receipts and disbursements. None of the checks Harris made payable to either himself or his wife were supported by proper documentation. We were unable to determine if any reconciliations had been performed for these accounts because the canceled checks and bank statements were not found in the District's records.

Recommendations

The District should identify all open bank accounts, determine the District's need for each account, and close all accounts the District does not need. To help ensure the proper use of District monies, the Board should approve and closely monitor all District accounts.

To properly control and safeguard cash, the District should segregate the cash-handling and recordkeeping functions among employees. An employee who is not responsible for handling cash, issuing checks, or issuing warrants should prepare the bank reconciliations. If the employee who prepares the bank reconciliations must also perform cash-handling and/or cash recordkeeping functions, a supervisor or board member should review and approve the reconciliations.

In addition, to ensure that all expenditures are properly reported to the Board, a person independent of cash-handling duties should reconcile the expenditure reports prepared for the Board to the District's check registers.

District Board Did Not Meet Each Calendar Month

In performing our review, we examined the minutes from the District's board meetings. We determined that during the period of our examination, the District, through its Board, did not hold public meetings at least once each calendar month as required by A.R.S. §48-805(A)(1).

Recommendation

The District, through its Board, should hold a public meeting at least once each calendar month as required by A.R.S. §48-805(A)(1).

Required Reports Not Submitted

A.R.S. §48-251 requires that the District submit an annual report to the Apache County Board of Supervisors. The Puerco Valley Fire District has never submitted an annual report as required by A.R.S. §48-251.

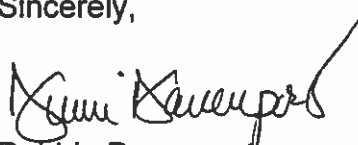
A.R.S. §48-253(A) requires that the District be subjected to an annual financial review by an outside auditor. The Puerco Valley Fire District had never been subjected to a financial review since its inception as required by A.R.S. §48-253(A).

Recommendation

To comply with A.R.S. §§48-251 and 48-253(A), the District, through its Board, should submit an annual report and be subject to an annual financial review.

Should you have any questions concerning the contents of this letter, please let us know.

Sincerely,



Debbie Davenport
Deputy Auditor General

cc: Stephen G. Udall
Apache County Attorney