DOUGLAS R. NORTON, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
DEPUTY AUDITOR GENERAL

May 10, 1995

Mr. Jerry DeRose
Gila County Attorney
1400 South Ash Street
Globe, AZ 85501

Re: Pine/Strawberry Fire District

Dear Mr. DeRose:

At your request, the Office of the Auditor General has conducted a preliminary review of specific allegations that have been made concerning various expenditures of the Pine/Strawberry Fire District. As stated in our letter dated December 8, 1994, our review was limited to the procurement policies and procedures used by the District in obtaining medical and fire chief services and the sale of newsletter advertisements. Therefore, our review 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 District. Our findings as a result of our preliminary review are briefly summarized as follows.

Fire Chief's Contract

On August 10, 1994, the Pine/Strawberry Fire District Board approved a new employment contract giving the chief an independent contractor status. The contract stated that the chief was to be responsible for a wide range of services, for which the district agreed to pay him $8,000 per month.

On September 14, 1994, at the urging of the Gila County Attorney's Office, the Fire District Board rescinded the chief's contract.

By October 12, 1994, the District recovered $2,451.96 from the fire chief and an itemized list of reimbursable district expenses of $10,010.11 through the contract period. This included $372.07 received in commissions for the collection of District receivables.

Also, under the terms of the contract, the fire chief was allowed to sell advertising space for the *High Country Fire Fighter*, a newsletter published by the District to inform the public about its activities. The fire chief sold 2 ad spaces for $50 each during the contract period but did not personally receive any monies from the client.

Procurement of Medical Services

The County Board of Supervisors is authorized by A.R.S. §11-263.A to adopt a system of insurance for the benefit of county elected officials and employees. Although district employees are not county employees and the Fire District Board has no power similar to A.R.S. §11-263.A, it is authorized and required by A.R.S. §48-805.A.3 to "determine the compensation payable to fire fighters for time spent in training and for fire protection services." Compensation may mean more than salary and may include a provision for health, life, accident, and disability insurance or other benefits. Provision of such is therefore within the discretion of the Fire District Board. Furthermore, an intergovernmental agreement authorized by A.R.S. §11-952 could allow the District to participate in the county's insurance program, but it is not required to do so. However, the Fire District Board may not provide dependent coverage at no cost. This benefit would be a gift of public monies, which is prohibited by the state constitution.

Additionally, a fire district board member who provides medical services to the District may have a conflict of interest under A.R.S. §38-503. Any person seeking a contract to provide such services must make the potential conflict of interest known in the official record and may not participate in any fire district board decisions relating thereto.

State Procurement Code

Arizona Revised Statutes (A.R.S.) §41-2501 does not specifically include a fire district as a "state government unit" as prescribed in the statute. Therefore, the District is not required to adhere to the state procurement code or the county's equivalent.

We do not anticipate conducting any further review of the Pine/Strawberry Fire District at this time.

If you have any further questions concerning this matter, please call George Graham, Special Audit Manager, or me at 553-0333.

Sincerely,

Debbie Davenport
Deputy Auditor General

DKD/GGG/tms