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Controller's Reviews of Special Districts Find 2 Without Any Internal Controls

SACRAMENTO – State Controller John Chiang published the results of reviews into the internal controls of three special districts: the [Sierra Foothills Public Utility District](#) (Madera County), the [Indian Valley Community Services/Indian Valley Ambulance Service Authority](#) (Plumas County) and the [San Miguel Consolidated Fire Protection District](#) (San Diego County).

Following reviews into Sierra Foothills Public Utility District and Indian Valley Community Services/Indian Valley Ambulance Services Authority, both were found to lack all of 71 applicable internal management and fiscal controls necessary to protect their respective agencies from fraud, waste, and abuse. By comparison, Controller Chiang's 2010 audit of the City of Bell found that 46 of the 59 applicable internal controls were missing or deficient.

The Controller's review of San Miguel Consolidated Fire Protection District found that the internal controls were adequate. Of the 65 applicable internal controls, only one was found to be deficient. The reviews covered a two-year period, from July 1, 2010, through June 30, 2012.

"While special districts can possess vast powers to tax, issue debt, and manage public resources, they are frequently the least understood and watched form of government. With so little public scrutiny and even poorer constituent participation, these little-known governmental agencies can become breeding grounds for scandal and shockingly poor fiscal management," said Chiang. "With more than 4,800 of these agencies in existence today, there should be a renewed discussion about how these agencies can be formed, what checks-and-balances and reporting requirement should apply, and how they can be held accountable for their performance."

The reports follow the Controller's action earlier this month to [post 50 million fields of data](#) on special district operations.

Highlights of the Controller's review of the Indian Valley Community Services District/Indian Valley Ambulance Service Authority include the following:

- 1 Legally-required Financial Transactions Reports and Compensation Reports (FTRs) were consistently delinquent and/or remain outstanding.
- 1 Property tax revenues received by the County of Plumas were understated by \$182,883 (reported \$4,603 and allocated \$187,406).
- 1 Long-term debt (debt revenue bonds) totaling \$1,776,153 was not reported.
- 1 Balance sheet amounts did not reconcile with the fund equity reports.
- 1 The policy manual was outdated and the district did not have a procedures manual.
- 1 Established policies and procedures were not followed by the former General Manager.
- 1 Compensating controls, if any, were not practiced by the Board and/or were overridden by the former General Manager.
- 1 Financial records and information for Fiscal Year 2010-11 and FY 2011-12 were not available.

The former General Manager was arrested in November 2013 and charged with fraud, forgery, and embezzlement, initially totaling \$381,841. In February 2014, the Plumas County District Attorney increased the embezzlement amount to \$676,375. The current General Manager claims that the district has started to make positive changes to processes, which may alleviate some of the noted deficiencies.

Highlights of the Controller's review of the Sierra Foothills Public Utilities District include the following:

- 1 Beginning with FY 2000-01, the district filed only four of 13 required FTRs.
- 1 Controls were nonexistent and no checks were in place to mitigate risks associated with lack of controls.
- 1 There were reporting issues for the district's FTRs for FY 2010-11 and FY 2011-12.
- 1 The district did not have a policy and procedures manual.
- 1 The district could not provide any financial information and documents for the period under review.
- 1 The district has not had an independent audit since its formation.

The current General Manager claims that the district is working diligently to make positive changes to reconstruct the district's records and to keep the district operating.

Due to the severity of the findings, the Controller's Office will conduct follow-up reviews of both special districts in approximately one year.

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