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Honorable Robert C. Hight
Presiding Judge
Sacramento County Superior Court
720 Ninth Street, Department 47
Sacramento, CA 95814

**RE: Response of the Board of Directors of the Herald Fire Protection District to the
Final Report of the Sacramento County Grand Jury 2013-2014, pp. 20-31**

To Judge Hight:

Pursuant to California Penal Code sections 933 and 933.05, the Governing Board ("Board") of the Herald Fire Protection District ("District") hereby submits its formal Response to the 2013-2014 Sacramento County Grand Jury Final Report ("Grand Jury Report") pertaining to various financial and operation matters of the District.

I. INTRODUCTION

The primary responsibility of the Herald Fire Protection District (including its Board of Directors) is to act in the best interests of the public as it conducts its fire suppression, fire safety, and other emergency response and public safety activities.

The Board acknowledges and appreciates the Grand Jury's in-depth investigation of the history of, and recent challenges facing, the Herald Fire Protection District. The Board is particularly gratified by, and fully agrees with, the Grand Jury's recognition of the critical role that the District serves in the Herald community. The Board, like the Grand Jury, is deeply concerned that recent developments in the District may have eroded public confidence in the ability of the District to meet its obligations. Accordingly, notwithstanding substantial recent administrative challenges, in the form of recent administrative staff turnover and multiple Board member resignations, the Board is taking vigorous action to implement reforms that it fully believes will position the District to renew its capacity to effectively serve the community and promote increased public confidence in the District.

With those principles in mind, the Board sets forth its Response, as requested, to the Findings and Recommendations of the 2013-2014 Sacramento County Grand Jury Final Report, as follows:

II. REQUESTED RESPONSES TO FINDINGS AND RECOMMENDATIONS¹

A. Finding 1:

The District lacks adequate internal accounting controls sufficient to ensure against misappropriation.

Response to Finding 1:

The Grand Jury has identified a number of areas in which the District's internal accounting controls appear deficient to ensure against misappropriation of funds. Notably, the Grand Jury has not identified any actual misappropriation and, to date, actual instances of misappropriation of funds or resources have not been demonstrated to the Board.

Based on circumstances unforeseen at the time that the Grand Jury Report issued, it has been exceedingly difficult for the Board to conduct an in-depth inquiry and develop a full understanding of the nature of the District's internal accounting controls. In the period following the issuance of the Grand Jury Report, the Board accepted the resignations of its full-time Fire Chief, its full-time administrative assistant, and three sitting Board members.² Examination of the records of the District finds them to be in substantial disarray, and in the period since receipt of the Grand Jury Report, the District has lacked qualified staff to take on the laborious task of comprehensively reviewing, sorting, and analyzing the District's records.

Notwithstanding the above, it is clear to the Board, if only based on the deficiencies in recordkeeping, that the Grand Jury has raised appropriate serious concerns regarding the level and nature of the District's internal controls.

¹ The Grand Jury has requested that the Board respond to Findings 1, 2, 3, and 4, and to their related recommendations, and that the District's Fire Chief respond to Findings 1 and 3, and their recommendations. Because the Fire Chief has resigned, the Board is not able to compel his response to the Grand Jury Report; therefore this Response contains only the position of the Board.

² The Board has since appointed Board members to two vacant positions, and will await the November election to fill the third vacant position. A sitting Director's seat is also before the electorate for the November 4th election.

Accordingly, since the issuance of the Grand Jury Report, the Board has taken the following actions:

1. The Board, dissatisfied with the level of service being received by its long-time auditor, has engaged the services of a nationally-recognized accounting firm, Richardson & Company,³ to guide the Board in identifying all records that may exist that will allow the District to understand and address its internal control issues. Richardson & Company is in the process of performing a comprehensive audit of all aspects of the District's finances. This audit will include, but will not be limited to, a full audit of, and recommendations pertaining to, the Herald Community Barn and the Hendrickson Hall. Given the acknowledged likely deficiencies in past audits, and the challenges in locating and organizing necessary records, this in-depth audit has proven to be quite challenging and is not complete at this time.
2. Following the Board's acceptance of the resignation of the Fire Chief, the District has labored through a period in which it was required to operate without the leadership of an experienced executive manager. While the Assistant Fire Chief of the District graciously agreed to serve as interim Fire Chief during this challenging period, his background and experience are primarily in fire suppression operations, not administration. Most recently, the Board has entered into an agreement for interim services with a very experienced retired former fire chief, retired annuitant James Templeton, who served for many years as the Fire Chief of the Galt Fire Protection District, prior to that district's merger with the Cosumnes Community Services District. Interim Fire Chief Templeton has taken vigorous action to educate himself on the history and challenges of the District and has taken the lead in developing strategies to bring the District into line with accepted, industry-standard administrative practices. Interim Fire Chief Templeton has signaled his determination, in concert with the Board, to cooperate with the newly engaged accounting firm for the District and the Sacramento County ("County") Finance Department, in both identifying and rectifying all accounting control deficiencies of the District. With the leadership of Interim Fire Chief Templeton and the assistance and advice of Richardson & Company and the County, the Board is confident that past deficiencies can and will be corrected.

³ Richardson & Company is well-recognized and respected in the Sacramento County region and has performed auditing services for numerous municipalities and special districts, large and small, including, by way of illustration and not limitation: Sacramento Metro Fire Department, Sacramento Regional Fire/EMS Communication Center, American Canyon Fire Protection District, Wilton Fire Protection District, Courtland Fire Protection District, and many others.

B. Recommendation 1:

The District should establish adequate internal accounting controls, as identified in this report, to ensure verification of the District's finances against waste or misappropriation of District assets.

Response to Recommendation 1:

The Board agrees with Recommendation 1 and, as described above, is moving toward implementation. Upon receipt of the audit and recommendations of Richardson & Company, the Board will provide a comprehensive update to the Grand Jury.

C. Finding 2:

Since 2008, the District's finances have not been audited in accordance with generally accepted auditing standards, as required by law.

Response to Finding 2:

The Board shares the Grand Jury's concern relating to the thoroughness and quality of past audits of the District's finances. The Board does not, itself, possess the necessary financial expertise to determine whether the audits that it has received since 2008 have met generally accepted auditing standards, but based on interactions that the Board has had with its prior auditing firm since the issuance of the Grand Jury Report, the Board is deeply concerned that prior audits may not have met the requisite standards.

D. Recommendation 2:

The county auditor should conduct an immediate audit of the District's financial statements and conduct all future annual audits of the District's finances, as required by law.

Response to Recommendation 2:

The District would welcome an immediate audit, and future audits, by the County. However, the District has received conflicting information regarding the prospect that the County will perform a financial audit. Immediately after issuance of the Grand Jury Report, the District contacted the County Finance Department regarding whether it was willing and able to conduct such an audit, and was advised that this is not a service that the County was able to provide at this time. The County advised the District that it would be necessary for the District to continue to procure its audits independently. Most recently, however, at its

meeting on September 23, 2014, the County Board of Supervisors ordered its staff to conduct a limited financial review of the District "as soon as possible." As noted, the District welcomes such a review or audit. Meanwhile, the District has sought out, and contracted for, auditing services from a highly respected accounting firm, Richardson & Company. Given its obligation to obtain independent audits of its finances, and noting that it may take several months for the County to complete any review or audit, the District is continuing to move forward through the independent auditing process with all due haste.

E. Finding 3:

The District has not adopted or implemented personnel policies compliant with the Firefighters Procedural Bill of Rights with respect to punitive actions against full-time firefighter employees, and District staff lacks knowledge of the Act's requirements.

Response to Finding 3:

The Board shares the Grand Jury's concern that its policies and procedures, including personnel policies and procedures, are not fully up-to-date and may be vague or deficient in clearly setting forth how the District will comply with all State and federal personnel laws and regulations. The Board concurs that its prior (now resigned) administrative staff may have lacked knowledge of important personnel laws and regulations. The Board also acknowledges the District's obligation to comply, in appropriate circumstances, with the Firefighter's Bill of Procedural Rights. The Board is determined to develop and implement updated personnel policies that are fully consistent with the rights of the District's staff.

F. Recommendation 3:

The District should adopt policies and practices compliant with the Firefighters Procedural Bill of Rights and provide training to all staff regarding the Act's requirements.

Response to Recommendation 3:

Shortly after the issuance of the Grand Jury Report, the Board formally instructed its administrative staff to form a committee to develop a comprehensive set of updated and legally compliant policies and procedures. Unfortunately, before this important committee was impaneled, the administrative staff resigned. Now that the Board has a qualified interim Fire Chief in place and is in the process of seeking and hiring an administrative assistant, it is a first order of business for the Board that the District proceed with the impaneling of its policy committee. The Board intends to direct staff to support the Committee in its work, in order for a

comprehensive set of proposed updated policies and procedures to be presented to the Board for consideration at the soonest practicable date.

G. Finding 4:

The District has failed to timely review and update, as appropriate, District governance policies.

Response to Finding 4:

As set forth in the above Response to Finding 3, the Board shares the Grand Jury's concern that its governance policies are outdated and may be deficient. The Board has a critical interest in assuring that it conducts its affairs, in all respects, in a manner that is consistent with applicable laws and regulations. The Board desires to improve relations with the public and to promote public confidence by enacting and implementing effective and compliant governance policies.

H. Recommendation 4:

The District should comprehensively review and update as appropriate all District governance policies, including the District's Master Plan.

Response to Recommendation 4:

With competent administrative staff in place to support the Board's development of updated governance policies, the Board fully intends to comply with this Recommendation of the Grand Jury. The Board also agrees that, given the recent history of the District, it is an appropriate juncture at which to revisit the District's Master Plan to ascertain where the Plan requires updating so it can support the Board in setting a course for the long term effectiveness of the District in meeting the needs of the community it serves.

III. CONCLUSION

The past several years have presented profound challenges to the Herald Fire Protection District. Those challenges have strained public confidence in the District and have justifiably opened the District and its Board to criticism based on the poor recordkeeping by District staff, a lack of transparency in accounting practices, and delays in the development and implementation of updated and effective administrative and governance policies and procedures.

To the extent that the challenges for the District, acknowledged in this Response, have sparked a "firestorm" in the District, the Board of Directors submits to the Grand Jury that it has now undertaken appropriate steps to contain, and ultimately put out, that "fire," thereby positioning the District and its Board to promote and retain the full trust and confidence of the public it serves.

Respectfully submitted,



Lance Newhall
Chairman of the Board of Directors

cc: James Templeton, Interim Fire Chief
Michael Arkelian, Foreperson

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