



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

Contact: Michelle Meyer
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FOR RELEASE

April 21, 2023

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Richland, Iowa, for the period July 1, 2020 through June 30, 2021. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported eighteen findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 13 of this report. The findings address issues such as a lack of segregation of duties, the lack of bank and utility reconciliations, disbursements exceeding budgeted amounts, separately maintained records and questions surrounding the City's Fire Department and fire service. Sand provided the City with recommendations to address each of the findings.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's website at [Audit Reports – Auditor of State](#).

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CITY OF RICHLAND

AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JULY 1, 2020 THROUGH JUNE 30, 2021

City of Richland



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Rob Sand
Auditor of State

April 17, 2023

Officials of the City of Richland
Richland, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Richland, Iowa, for the period July 1, 2020 through June 30, 2021. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Richland throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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City of Richland

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Thomas Hoekstra	Mayor	Jan 2020	Jan 2022
Alisa Tolle	Mayor Pro tem	Jan 2020	Jan 2022
Carly Cavner	Council Member	Jan 2020	Jan 2022
Michael Hadley Jr.	Council Member	Jan 2020	Jan 2022
Lee Duwa	Council Member	Jan 2020	Jan 2022
Rhonda Noel	Council Member	Jan 2020	Jan 2022
Susan Carroll (Appointed Aug 2020)	City Clerk		Indefinite
Phil Parson	Attorney		Indefinite



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Richland for the period July 1, 2020 through June 30, 2021, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Richland's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The City of Richland's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, recommendations pertaining to selected accounting records and related information of the City including the City's compliance with certain Code of Iowa requirements. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2021 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. The City had no investments.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City had no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
13. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. The City had no transfers.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

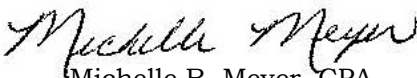
Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were engaged by the City of Richland's management to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City of Richland and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Richland during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Michelle B. Meyer, CPA
Director

April 17, 2023

Detailed Findings and Recommendations

City of Richland

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

(A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording cash.
- (2) Investments- custody of investments, detailed record keeping and reconciling earnings.
- (3) Long-term debt- recording, compliance, and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, reconciling and posting.
- (5) Disbursements – check preparation, signing, posting and distribution.
- (6) Payroll – entering hourly rates into the system, recordkeeping, preparing, signing, distributing and approval of timesheets.
- (7) Utilities – billing, collecting, posting, preparing the deposit, depositing collections, preparing the delinquent account listing and utility reconciliations.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

(B) Fire Department, Inc. and the City Library Separately Maintained Accounts – All accounting functions are handled by one individual without adequate compensating controls. In addition, monthly bank reconciliations were not prepared for the Fire Department, Inc. and the separate Library accounts.

Recommendation – The Fire Department, Inc. and Library personnel should work with the City Clerk to segregate accounting duties to the extent possible. Monthly bank reconciliations should be prepared, and independent reviews of the reconciliations should be completed and documented by the signature or initials of the reviewer and the date of the review.

(C) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For the month observed, the bank balance exceeded the book balance by \$8,529. Additionally, the reconciliation was not reviewed by an independent person.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and variances, if any, are reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Richland

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (D) Utility Rates – Approved water and sewer utility rates could not be located by City personnel. In addition, the garbage rate was established by resolution as a dollar amount increase to the previous rate, with no total established rate clearly documented.

Recommendation – In accordance with Chapter 384.84(1) of the Code of Iowa, utility "Rates must be established by ordinance of the council or by resolution of the trustees, published in the same manner as an ordinance." The City Council should determine whether water and sewer utility rates have been properly established by City ordinance. If an ordinance cannot be located, the City Council should pass an ordinance setting the applicable rates. The City Council should also ensure the garbage rate is properly established by a City ordinance which clearly states the approved rate, not just a dollar amount increase.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although a reconciliation of utility billings, collections and delinquent accounts can be generated by the system, such a report is not generated monthly and verified for accuracy and a delinquent account listing was not prepared monthly.

Recommendation – Reconciliations of utility billings, collections and delinquent accounts should be generated monthly, and the individual components of the reconciliations should be verified to supporting documentation. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (F) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (G) City Council Meeting Minutes – Although the City Council proceedings were published, the publications did not include the total disbursements from each fund, or a summary of all receipts are required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish the total disbursements from each fund and a summary of all receipts, as required.

- (H) Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

City of Richland

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (I) Debit Card – The City has a debit card available for City purchases.

Recommendation – The City Council should prohibit the use of debit cards for City purchases. The function of a debit card is to provide immediate access to the City’s funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with the debit card.

- (J) Unsupported Richland Fire Department, Inc. Disbursements – The following disbursements for the Richland Fire Department, Inc. were not supported by invoice or other supporting documentation.

Paid to	Purpose	Amount
Loriam’s	Undetermined expenses	\$ 132
Janesville Event Center	Undetermined expenses	1,200
Hy-Vee	Undetermined expenses	564

Recommendation – All disbursements should be supported by vendor invoice or other supporting documentation.

- (K) Petty Cash – The City does not have a policy for the petty cash funds which specifies proper usage, including allowable and unallowable disbursements, approvals and maximum dollar amounts.

Recommendation – The City should formalize a petty cash fund policy establishing proper usage, amounts and procedures for all City departments.

- (L) Separately Maintained Records – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property.”

The City Library maintains a bank account for activity separate from the City Clerk’s accounting records. While Library personnel represent this account belongs to a Friends of the Library, there is no evidence a legally separate "Friends" organization exists. In addition, the name of the bank statement for this account is "Richland Public Library" and the account is under the City's tax identification number. The Library is a department of the City; however, the transactions and the resulting balances of these accounts were not included in the City’s accounting records and were not included in the City’s annual budget, monthly financial reports or Annual Financial Reports.

In addition, the transactions and resulting balances of the account were not reported to the City Council and disbursements from the account were not reviewed and approved by the City Council. Also, a summary of the account’s receipts, total disbursements and the listings of claims allowed each month were not published in accordance with Chapter 372.13(6) of the Code of Iowa.

City of Richland

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

Recommendation – In accordance with Chapter 384.20 of the Code of Iowa, and to strengthen internal control and increase operating efficiencies, the financial transactions of the Library’s separate account should be integrated with the City’s accounting records in the City Clerk’s office. The financial activity should be included in the City Clerk’s accounting records, monthly financial reports and the Annual Financial Reports. The activity in these accounts should be subject to City Council review and approval and should be included in the City’s budget process. Also, a summary of the account’s receipts, total disbursements and listings of claims allowed each month should be published, as required.

- (M) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City and the separately maintained account for the Library do not receive an image of the back of each cancelled check for several bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts, including those maintained by the Library, as required by Chapter 554D.114 of the Code of Iowa.

- (N) Payroll – There is no indication that timesheets are reviewed by supervisory personnel prior to preparation of payroll. There was no formal City Council approval of overtime worked. Also, not all hourly pay rates were approved by the City Council and documented in the minutes record.

Recommendation – Timecards should be initialed by the employee’s supervisor or by an independent official who is not involved in payroll. Additionally, all hourly rates should be approved by the City Council and documented in the minutes record.

- (O) Credit Cards – The City had credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for properly accounting for credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum should address who controls the credit cards, who is authorized to use the credit cards and for what purposes, as well as the types of supporting documents required to substantiate charges.

- (P) Local Option Sales Tax – The Local Option Sales Tax (LOST) ballot detailing how LOST receipts are to be used was not available. Accordingly, we were unable to determine whether LOST receipts were appropriately used.

Recommendation – The City should locate the LOST ballot and ensure LOST proceeds are used in accordance with the ballot.

City of Richland

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

- (Q) Mayor Compensation – In fiscal years 2018, 2019 and 2020, the Mayor received compensation of \$19,190, \$22,537 and \$2,276, respectively for garbage collection duties. The additional compensation appears to violate Chapter 372.13(8) of the Code.

Recommendation – Chapter 372.13(8) of the Code of Iowa states in part, “Except as provided in section 362.5, an elected city officer shall not receive any other compensation for any other city office or city employment during that officer's tenure in office but may be reimbursed for actual expenses incurred.” The City has consulted legal counsel regarding this issue and received a response dated August 14, 2019 from that counsel. In that response, legal counsel concluded that "Chapter 372.13(8) of the Code of Iowa and an Attorney General's Opinion 18-8-1 make it clear that the elected City Officials for the City of Richland cannot be employed by the City, and we request that this violation of Iowa Code Section 372.13(8) be rectified immediately." Beginning January 2020, the City ceased compensating the Mayor for the noted services. The City should seek reimbursement for any additional contracts with the mayor, as he is now aware of the illegality of these contracts.

- (R) Richland Fire Department Inc.

Background Information:

Chapter 364.16 of the Code of Iowa requires the City to provide for the protection of life and property against fire. This section also states in part, “A City has the same governmental immunity outside its corporate limits when providing fire protection as when operating within the corporate limits.”

Chapter 359.42 of the Code of Iowa requires townships to provide fire protection for the township and Chapter 359.43 allows the township trustees to levy an annual tax for the purpose of exercising its fire protection duties and allows the township trustees to “contract with a public or private agency under Chapter 28E of the Code of Iowa for the purpose of providing any service or system required or authorized under this section.”

Chapter 28E.4 of the Code of Iowa states, “Any public agency of this state may enter into an agreement with one or more public or private agencies for joint or cooperative action pursuant to the provisions of this chapter, including the creation of a separate entity to carry out the purpose of the agreement. Appropriate action by ordinance, resolution or otherwise pursuant to law of the governing bodies involved shall be necessary before any such agreement may enter into force.”

Chapter 5 of Title III of the Richland City Code establishes a City Volunteer Fire Department (to prevent and extinguish fires), hereafter referred to as “the City Fire Department”. The City ordinance also states the City shall contract for worker's compensation and liability insurance.

In June 2018, the Fire Chief and the volunteer firefighters for the City Fire Department established the Richland Fire Department, Inc. as a 501(c)(3) nonprofit corporation, a legally separate entity, hereafter referred to as “Nonprofit Fire Department”. In accordance with the Articles of Incorporation, the purpose and objectives of the corporation are to promote and support the safety of the public by providing volunteer fire protection and prevention services. The City’s Fire Chief has authority over the nonprofit organization.

City of Richland

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

According to City personnel, the Nonprofit Fire Department provides fire protection to the City of Richland and all of Richland Township in Keokuk County and parts of the Townships of Clay, Black Hawk, and Dutch, each of which pay their levied property taxes to Richland Township.

The Nonprofit Fire Department maintains two bank accounts, a checking and savings, with balances totaling \$19,872 at June 30, 2021.

Some of the fire trucks used by the Nonprofit Fire Department are titled as "Richland Township." The various Township Trustees have secured vehicle insurance for the fire trucks. The levied property taxes noted above for the three townships are paid to the Richland Township Trustees. It is unclear whether the Richland Township provides any or all of these tax dollars directly to the Nonprofit Fire Department or simply uses them to purchase items in support of the Nonprofit Fire Department.

According to City personnel, the City of Richland does not pay Nonprofit Fire Department directly for services to the City, but instead is responsible for paying routine expenses such as worker's compensation insurance and liability insurance. The City also owns a building designated as the fire station. While there is no formal contract or agreement spelling out these terms, we did not find evidence contrary to this representation.

There is what is known as a "Rural Fire Board" that meets annually to approve a budget for fire protection services. It is not clear how the Rural Fire Board was established as there is no documentation supporting the Board as a legal entity. According to City personnel, there are 28E agreements between the four townships (Richland, Clay, Black Hawk and Dutch) and the Rural Fire Board. However, these agreements could not be located and, accordingly, we were unable to verify their existence.

We noted the following:

1. As noted above, in June 2018, the City's Fire Chief and the City Fire Department volunteer firefighters established the Richland Fire Department, Inc as a legally separate 501(c)(3) (nonprofit) organization which provides fire protection services to the noted Townships and the City of Richland.

It is unclear how volunteers of a department created by the City's governing body through City ordinance can legally separate themselves from the City without City Council approval.

2. A 28E agreement as described in Chapters 28E.4 and 359.42 of the Code of Iowa and providing for the joint provision of fire protection between the City, the noted Townships and the nonprofit organization does not exist.

City of Richland

Detailed Findings and Recommendations

For the period July 1, 2020 through June 30, 2021

3. Based on an inspection of the activity of the Nonprofit Fire Department bank account, it appears fire protection services are being provided by the Nonprofit Fire Department and costs associated with the service run primarily through that account. According to City personnel, two vehicles are loaned from the Iowa Department of Natural Resources (DNR) through the City, the City owns the building housing the equipment, and the City pays the worker's compensation insurance for the fire fighters and utilities for the building. Each Township served by the Nonprofit Fire Department provides their levied property tax dollars directly to the Richland Township. As noted in the Background Information above, it is unclear whether the Richland Township provides any or all of these tax dollars directly to the Nonprofit Fire Department or simply uses them to purchase items in support of the Nonprofit Fire Department.

There is no formal, written agreement between the City and the Nonprofit Fire Department or between the Townships and the Nonprofit Fire Department identifying the terms and conditions under which the Nonprofit Fire Department is to provide service or the City's and each Township's responsibilities under the arrangement.

4. Organizations established as 501(c)(3) nonprofit corporations are typically created to further charitable pursuits, not to provide a service or act as a vendor in providing a service such as fire protection. Legally separate nonprofit "fire" organizations typically exist to support a City government in carrying out its responsibility under Chapter 364.16 of the Code of Iowa to provide fire protection. These nonprofit organizations provide this support by holding various fund raisers and collecting donations to help provide funds to purchase equipment and other items needed by the City to carry out its duties. Funds in these situations flow from the nonprofit organization to the City in compliance with the Iowa Constitution which prohibits public funds from being provided to private, nonprofit organizations.

The arrangement the City has with the Nonprofit Fire Department to provide fire protection services, and not just to support the City in providing that service, is unusual. It is unclear whether a nonprofit organization can be established for the noted purpose or whether the nonprofit organization is afforded the same immunities in providing the service as a government. In addition, the City's Fire Chief is in charge of the Nonprofit Fire Department, making the lines of authority and responsibilities of the Nonprofit Fire Department and the City unclear.

5. It is unclear how the Rural Fire Board was established and the legal role the Board plays with the Nonprofit Fire Department, the City and the Townships.

Recommendation – The City should consult legal counsel to determine the validity of the City's arrangement with the Nonprofit Fire Department, a 501(c)(3) nonprofit organization, to provide fire protection services, including whether the organization has the proper legal immunities for providing that service, i.e., those same immunities afforded a government providing fire protection services, and under what authority the City provides funding and other public property to a private nonprofit organization. If the arrangement is proper, the City and each Township should enter into a formal, written agreement with the Nonprofit Fire Department to clearly identify the roles and responsibilities of each party to the agreement. The role of the Rural Fire Board should also be clarified, including how this Board was established and its legal purpose.

City of Richland

Staff

This engagement was performed by:

Michelle B. Meyer, CPA, Director
Tiffany M. Ainger, CPA, Manager
Alex N. Kawamura, CPA, Senior Auditor II
Jorge M. Morales, Assistant Auditor