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Fallen Leaf Lake Community Services District

Its Billing Practices and Small Electorate Jeopardize Its Ability to Provide Services

Report Number: 2018-133

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Summary

Audit Highlights . . .

Our review of the Fallen Leaf Lake Community Services District revealed the following:

- » The district improperly profited from reimbursements it received for providing personnel to fight wildfires.
 - It overbilled reimbursing agencies by more than \$700,000 from 2016 through 2018.
- » Without the inflated reimbursements and if the district did not reduce expenditures or increase revenues from other sources, it would have experienced financial shortfalls.
- » The district jeopardized its financial viability because it may have to repay the excessive reimbursement amounts.
- » Cal OES's limited oversight of the reimbursement rates claimed by local fire agencies and weaknesses in the reimbursement process enabled the district to claim excessive reimbursements.
- » The district's small electorate challenges its ability to provide services to its community members.
 - It has difficulty attracting candidates to run for its five-member board because only permanent residents who are registered voters are eligible—only 17 of the 62

registered voters had mailing addresses in South Lake Tahoe.

- Expanding the district's electorate to include nonresident landowners and permit holders would allow more people the opportunity to vote on district matters and to serve on the board.

Results in Brief

Established in 1982, the Fallen Leaf Lake Community Services District (district) is a special district located south of Lake Tahoe in El Dorado County. The district includes 289 parcels of land that are either privately owned or used by individuals who have recreational permits from the U.S. Forest Service (Forest Service). The district provides the community with fire protection and park and recreation services. However, it has consistently overbilled other government agencies for reimbursements related to providing firefighting assistance, creating the risk that it will need to pay the funds back. Additionally, when balancing its annual budget, it has relied on the reimbursements it receives for providing such firefighting assistance, even though it has no assurance that this funding will be ongoing or consistent. Further, because the district has such a small electorate, it could face difficulties in the near future in electing enough members to its board of directors (board) to achieve a quorum—a majority of the board members. Without a quorum, the board may be unable to function and the district may be unable to provide the community with services at their current cost and service levels.

The California Fire Assistance Agreement (fire agreement) between federal and state agencies provides for reimbursement to local fire agencies—such as the district's—for providing firefighting assistance, such as personnel and equipment (strike teams) during wildfires. Under the fire agreement, local fire agencies can receive reimbursement for personnel at a base rate or a higher, enhanced rate. To receive an enhanced rate, local fire agencies must calculate and submit to the California Governor's Office of Emergency Services (Cal OES) their average actual salary rates. Cal OES uses these salary rates to calculate the reimbursement amounts due to the local fire agencies from the federal, state, and other local agencies to which they provided assistance.

However, when filing its salary forms for 2016 through 2018 with Cal OES, the district's fire chief reported higher salary rates than the district actually paid its firefighters, which resulted in the district claiming over \$700,000 more than it should have. As a result of these improper reimbursements, the district's audited financial statements for fiscal years 2015–16 through 2017–18 show that its revenue exceeded its expenditures. However, had it submitted salary forms with the appropriate salary rates and had it not reduced its expenditures or increased revenues from other sources, the district would have experienced a financial shortfall during that period. The district may need to repay the excessive reimbursements in the future. Doing so would significantly impact its reserve balance, which was \$1.2 million at the end of fiscal year 2017–18.

In addition, the district recently implemented a budget practice that has further jeopardized its ongoing financial viability. Specifically, since fiscal year 2017–18, the district's budgets have relied on strike team reimbursements to help cover increases in its personnel costs. Given that such reimbursements are subject to a number of variables—for instance, the number of

wildfires that occur and the length of time firefighters spend on strike teams—we consider them to be a volatile revenue source, meaning that they are neither ongoing nor consistent. Consequently, the district has taken an unnecessary financial risk by relying on this revenue to support its personnel costs.

Cal OES's limited oversight of the enhanced salary rates claimed by local fire agencies and weaknesses in the reimbursement process under the fire agreement enabled the district to claim excessive reimbursements. For instance, although we recommended in 2012 that the California Emergency Management Agency—which the State later renamed Cal OES—analyze the accuracy of the rates that local fire agencies reported on their salary forms and audit a sample of invoices each year, it has completed only eight such audits over the past seven years. Cal OES is working to reinstate these audits and, as of June 2019, was negotiating an agreement with the State Controller's Office to perform them. Additionally, the current fire agreement does not require local fire agencies to submit documentation to support the enhanced salary rates they claim. Revising the fire agreement to require each local fire agency to submit documents demonstrating that its governing body approved its salary rates and supporting how the fire agency calculated the rates would allow Cal OES to determine whether the rates were reasonable. The California Fire Assistance Agreement Committee (Agreement Committee) is currently renegotiating a new fire agreement that Cal OES expects to become effective in January 2020.

In addition to its financial problems, the district faces a governance challenge because of its small electorate. Specifically, it has had difficulty attracting candidates to run for its five-member board because of the eligibility requirements that define which community members can vote on district matters or serve on the board. Only people who are domiciled—have their primary, fixed residence—in the district are eligible to register to vote and to sit on the board. Many community members live in the district for only part of the year because it is a seasonal community. Consequently, as of January 2019, the district had 62 registered voters, and only 17 of them provided mailing addresses in South Lake Tahoe. The other 45 voters, including all five of the district's current board members, registered with mailing addresses outside the area—an indication that these community members may actually be domiciled outside of the district and therefore be ineligible to register to vote in the district or serve on the board. The district has not had a contested election for a board seat since August 2010, and since January 2010, it has had seven different vacancies on its board.

Expanding the district's electorate would likely help to address its governance challenge. Although other options exist, they have more risks and are more likely to affect the services the district provides, as well as the costs of those services. We believe that expanding the district's electorate to include nonresident landowners and individuals who have permits to use Forest Service land would allow more people the opportunity to vote on district matters and to serve on the board. Doing so would not only address vacancy concerns for the board, it would also allow these individuals to vote on district matters that affect them.

Although the district's board faces a challenge as a result of its small electorate, existing state law does not require that when a local agency formation commission (LAFCO) is creating or modifying a special district, it must consider—along with other factors such as the potential district's ability to provide services—the size of the proposed special district's electorate.

Selected Recommendations

Legislature

To ensure that the district has an electorate of sufficient size from which it can elect a board, the Legislature should enact legislation to allow landowners and holders of Forest Service permits within the district, along with otherwise domiciled registered voters in the district, to vote on district matters and serve on the board.

To help voters in special districts elect full-size boards of directors and to help special district boards avoid quorum issues and service disruptions, the Legislature should amend state law to require a LAFCO to assess whether an electorate is of sufficient size when it considers creating or modifying a special district.

Cal OES

To better ensure that it reimburses local fire agencies appropriate amounts for responding to incidents, including the provision of strike teams for fighting wildfires, Cal OES should complete implementation of its plan to routinely audit a sample of salary forms and invoices that local fire agencies submit under the fire agreement. It should, by September 15, 2019, complete its negotiations to have the State Controller's Office perform these audits.

To further ensure that local fire agencies receive proper reimbursement for responding to incidents, Cal OES should recommend to the Agreement Committee that it include the following steps in the new fire agreement:

- Require local fire agencies to submit documents showing approval by their governing bodies of the average actual salary rates included on the salary form that the local fire agencies submit to Cal OES.
- Require local fire agencies to submit documentation to support their average actual salary rates.

District

To rectify the excessive reimbursement amounts it received for strike team assignments, the district should, by December 31, 2019, develop and implement a plan for returning to the paying agencies the excessive reimbursements it received from 2016 through 2018.

To improve its financial viability and safeguard its ability to continue providing services to the Fallen Leaf Lake community, the district should take the following actions by December 31, 2019:

- Monitor the financial risks it may face in the future, forecast their impact on its finances and budget, and plan and implement appropriate changes to its budget as necessary throughout the fiscal year.
- Limit the extent to which it relies on volatile revenue sources to balance its budget.
- Develop and implement a budget plan that realistically estimates changes in revenues and expenditures, and identifies approaches to address such changes.
- Develop a five-year forecast of estimated revenues and expenditures and a plan to guide its decisions and actions in the event of fluctuations.

Agency Comments

Although it generally intends to implement our recommendations, the district disagreed with certain of our report's conclusions, including that its financial viability may be in jeopardy. Cal OES stated that it intends to address our recommendations and described the corrective actions it will take. Finally, although we did not include recommendations for the El Dorado LAFCO in our report, it provided a written [response](#). Because this LAFCO questioned certain statements and conclusions in our report, we provide our perspective on its [response](#).

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