



El Dorado County Emergency Services Authority

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February 6, 2018

Lori Walker
Assistant Director of Administration and Finance
El Dorado County Health and Human Services Agency
3057 Briw Road, Suite B
Placerville, CA 95667

Dear Ms. Walker,

Below you will find the JPA's response to the material weaknesses outlined in the FY 15-16 audit conducted by Richardson & Company, LLP.

If you have any questions regarding the information below please feel free to contact Sherrie Kelley at 530-642-0622.

Finding 2016-1

Condition:

The JPA is reflecting a liability in its financial statements for the accrued compensated absences of JPA-funded employees that are employed by the Provider Fire Districts. The need to reflect this liability in the financial statements of the JPA is unclear because the agreements between the JPA and the Provider Fire Districts do not define the financial responsibility for this liability.

In addition, we noted that the amounts being billed by most of the Provider Fire Districts for OPEB costs is the actuarially determined annual required contribution, which includes both current and retired employees. One agency is billing the entire amount of the actuary's projected benefit payments, but we were unable to determine if this amount represents the only JPA-funded retirees or all of the district's retirees. Based on our discussion with JPA management, it appears the intent of these reimbursements is to pay for healthcare premiums on current JPA-funded retirees and not pre-fund for current employees. However, the JPA's policy does not specify this intent, nor do the agreements with the Provider Fire Districts. The JPA does not currently record a liability for the unfunded OPEB costs of JPA-funded employees because the responsibility for these OPEB costs is believed to be the Provider Fire Districts'; however, this is not specified in the agreements.

Pension cost reimbursements are also not specifically defined in the Provider Fire District agreements and there is an inconsistency in the methods being used by them in calculating the charge to the JPA for the JPA's share of the payment required by CalPERS during fiscal year 2015/16 toward the unfunded pension liability. The JPA's responsibility for these costs needs to be defined in the Provider Fire District

agreements, as well as the method to use to calculate the reimbursement amount. Similar to the OPEB, the JPA does not currently record a liability for the unfunded pension liability of JPA-funded employees because the responsibility for these pension costs is believed to be the Provider Fire Districts; however, this is not specified in the agreements.

Recommendation:

We recommend the JPA amend the Provider Fire District agreements to discuss which payroll related items will be reimbursed, and the basis for such reimbursements. We recommend the agreements specifically address, in addition to member agency salaries, whether overtime, temporary help, payroll taxes, health insurance premiums, workers compensation insurance premiums, compensated absences expenditure (i.e. any applicable vacation, sick leave, PTO, compensatory time-off, etc.), contributions to deferred compensation plans, contributions to retirement plans, contributions to other postretirement benefit (OPEB) plans and any other benefits paid by the Provider Fire Districts will be reimbursed. We recommend the agreement specifically address whether any unfunded liabilities for Provider Fire District compensated absences, pension plans and OPEB plans will be funded by the JPA or whether any unfunded liabilities will be the responsibility of the Provider Fire District. If the unfunded liabilities will be partially or fully funded by the JPA, we recommend the agreements specifically define how the unfunded liabilities for which the JPA is responsible will be computed and funded, including if the JPA dissolves without sufficient cash to fund its share of the unfunded liabilities.

Management Response:

The accrued compensated absences for JPA-funded employees was initiated with the approval of the County Board of Supervisors in 1996 when the JPA was first created. The JPA has carried this liability since 1996 based on a concern as to who will be responsible for the accrued absences should the JPA cease to exist.

The JPA has revised its Financial Transaction Reporting and Accountability policy to reflect that, should the JPA cease to exist, the funding for accrued compensated absences for JPA-funded employees shall be distributed accordingly to the transporting fire districts based on the availability of the funds set aside by the County Board of Supervisors in 1996 when the JPA was first created. The policy is scheduled for review/approval at the February 7, 2018 JPA Finance meeting and then will be presented at the February 28, 2018 JPA Board of Directors meeting for final adoption.

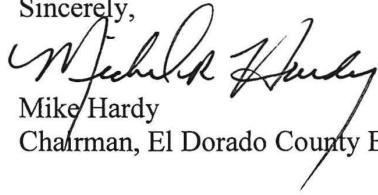
The JPA has revised its Other Post-Employment Retiree Health Benefits Funding policy (OPEB) to reflect that the JPA will only reimburse the transporting districts OPEB costs for current JPA funded retirees as calculated by a current actuarial and that the JPA will not provide OPEB reimbursement for current JPA funded employees (also referred to as prefunding). The policy is scheduled for review/approval at the February 7, 2018 JPA Finance meeting and then will be presented at the February 28, 2018 JPA Board of Directors meeting for final adoption.

The JPA is currently in the process of creating a policy to address the unfunded pension liability issue which will clearly outline the method required for calculating the JPA's share of the payment required by CalPERS.

The JPA believes that there is a potential for some of the inconsistencies with the OPEB and pension issues to be resolved during the negotiation process for the fixed rate contract. It is the JPA's hope that the County and the JPA can reach an agreement regarding how to handle both past and future concerns regarding OPEB and pension issues and enter into a mutually beneficial fixed rate contract.

The JPA has primarily relied on policies and procedures to define the responsibilities of the sub-contracting fire districts, however, we will consider the auditor's recommendation of adding specific policy language to the contract agreements during the next annual renewal phase.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Hardy". The signature is written in a cursive style with a large initial "M".

Mike Hardy
Chairman, El Dorado County Emergency Services Authority

cc: JPA Board of Directors