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Short-Term Financial Mess

By Nick Marnell

Barely one month into her job, Gloriann Sasser, Moraga-Orinda Fire District administrative services director, discovered an accounting error in October that decreased the district's general fund balance by more than \$2 million. The incorrect figure had been reported on the district's books for seven years; the district took immediate action to reduce the increased deficit at the Nov. 6 board meeting.

The Discovery

Something did not make sense. As Sasser reviewed the activity in the district's bank accounts she noticed the term "Bond Fund" printed on a Wells Fargo Bank statement. Drawing on her years of experience as an auditor and a certified public accountant, Sasser knew that the \$2 million in that account was restricted cash; it was held by Wells Fargo to pay the principal and interest on the district's pension obligation bond. Yet the district had been reporting the money as available in the general fund.

After meetings with Wells Fargo, legal counsel and a number of bond experts, Sasser determined that the bond fund was indeed restricted until the POB was paid off, in 2022. She advised the district's finance committee: directors Steve Anderson and Alex Evans. Then she, the finance committee and the district's auditor presented the findings to the MOFD board on Nov. 6.

The Deflection

John Cropper, managing partner of the Cropper Accountancy Corporation, the district's auditor, knew of the district's concerns over the \$2 million of restricted cash, which were raised at the Oct. 29 finance committee meeting. After he presented the audit summary for fiscal year 2012-13 at the board meeting - the audit was once again a clean audit - Cropper went on the offensive.

"Somewhere between the accounting department and the board, there is an issue," he said. "I don't know why the district would do some of the things they're doing ... like purchasing property." He also chastised the board for not understanding its own financial documents, and cautioned that the district had a cash flow problem.

His admonitions did not go over well with the board.

"I have a very strong disagreement with the current auditor," said Anderson, his face glowing a darker shade of red with each sentence. "They've failed in their job. And they should not be making gratuitous comments about the board."

Evans piled on. "You produced six years of audits," he said, his voice rising with each sentence. "In five of those years you didn't identify the restricted fund. And now you come here and say, 'I don't know why you bought this property.' The truth is, you don't know why we bought the property. So you're better off not talking about it, because the more you talk about it the angrier we're going to get."

Calm was restored thanks to Weil's urging, who made a motion to simply acknowledge, but not accept, the audit findings; the motion passed unanimously.

Cropper fired the last arrow from his quiver. Before he walked out of the meeting, he warned the board that the district was on an "unsustainable fiscal path."

The Determination

Because of the restricted cash adjustment, the district has, as of June 30, a negative balance of \$100,000 in its general fund. After deducting the July Lorinda Lane property purchase, the capital budget has a balance of less than \$2.5 million. At its recent rate of operating loss of nearly \$1 million per year, the district will run out of available cash in two years.

The board took action to avert that calamity. It approved a reduction in minimum daily staffing, from 19 to 17 fire personnel, which should save \$550,000 this fiscal year. It moved one step closer to revising the schedule of fees for district services, which is expected to increase revenue \$50,000 a year. And though it will be in instant violation of the policy, it voted to set aside 10 percent of general fund revenue into a reserve fund.

Anderson's frustration carried over after the meeting. "By next year," he said, "there will be a new auditor."

But Brook Mancinelli, past board member, thought the treatment of Cropper by the board was uncalled for. "(The directors) are realizing how close they are to being broke, and they were looking for a scapegoat," he said.

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