



Office of Missouri State Auditor
Nicole Galloway, CPA

FOLLOW-UP REPORT ON AUDIT FINDINGS

Goodman Area Fire Protection District

Goodman Area Fire Protection District

Follow-Up Report on Audit Findings

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*Includes selected findings



NICOLE GALLOWAY, CPA

Missouri State Auditor

To the Board of Directors
Goodman Area Fire Protection District

We have conducted follow-up work on certain audit report findings contained in Report No. 2015-130, *Goodman Area Fire Protection District* (rated as Poor), issued in December 2015, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the district about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
 - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
 - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
 - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
 - Not implemented: Auditee has not implemented the recommendation and has no specific plans to implement the recommendation.

Our methodology included working with the district, prior to completion of the audit report, to develop a timeline for the implementation of corrective action related to the audit recommendations. As part of the AFTER work conducted, we reviewed documentation provided by district officials and held discussions with officials to verify the status of implementation for the recommendations. Documentation provided by the district included budgets, receipt and disbursement records, capital asset records, and various other financial records. This report is a summary of the results of this follow-up work, which was substantially completed by September 2016.

Nicole R. Galloway, CPA
State Auditor

Goodman Area Fire Protection District

Follow-Up Report on Audit Findings

Status of Findings

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| 1. Conflicts of Interest, Debit Cards, and Online Transactions | Some activities involving elected Board members created actual, or at the very least, the appearance of conflicts of interest. Significant improvement was needed in the district's handling of debit cards and online transactions. Improper use of district debit cards and online purchases, including personal and unsupported purchases, was identified. |
| 1.1 Conflicts of interest | <p>Some activities involving the Board President¹ and another Board member created actual, or at the very least, the appearance of conflicts of interest.</p> <ul style="list-style-type: none">• The district did not solicit bids for any of the services provided by the Board President or his company. During 2013, the district paid a company owned by the Board President for backhoe and excavating services and issued a check to him personally for plumbing services. Two of the checks issued to his business exceeded \$500. Also, invoices submitted were not always itemized or adequately detailed. During 2014, the district did not solicit bids for a used fire truck and fire extinguisher brackets purchased from the Board President. He also did not abstain from approving payments to his company or himself or abstain when the Board specifically voted to use his company for some of these services.• The district purchased supplies using district debit cards from a local company owned by another Board member without soliciting bids. Detailed invoices showing the items purchased were not retained for some of the debit card transactions. While the transactions did not violate state law related to conflicts of interest, the Board member did not abstain from approving these payments. |

Recommendation

The Board of Directors refrain from entering into business transactions with related parties unless such services or transactions are properly bid in accordance with state law and the selection process is documented and ensure applicable Board members abstain from voting on such decisions.

Status

Implemented

The Board implemented a purchasing policy in April 2016, which includes a section outlining conflict of interest considerations. We reviewed district disbursement records and meeting minutes for May, June, and July 2016, and no payments were made to the Board President or his businesses. There were payments to another Board member's business; however, the Board member abstained from voting to approve these purchases and the amounts

¹ Jim Morgan served as Board Vice President from 2012 to April 2014, and was appointed as Board President in April 2014, and currently serves in that position. We have referred to him throughout this follow up report as the Board President.



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paid were less than the per transaction or per annum statutory amounts that require bidding when doing business with elected officials.

1.2 Debit cards

The district did not have a policy restricting or limiting the use of debit cards. The district's debit cards were used to make cash withdrawals, pay fees for calls using Skype, and pay vendor invoices that did not show the district as the customer. The Board President circumvented debit card purchase limits by splitting a purchase. The district debit cards were used to make several food purchases; however, the district did not have a formal policy regarding food purchases and some invoices had no explanation of the purpose of the meal purchases. Checkout procedures had not been established for the district's debit cards. Use of the debit cards by Board members (without adoption of a resolution), district vendors, and officers violated district bylaws.

Recommendation

The Board of Directors evaluate the need for each debit card and adopt formal policies and procedures for debit card use. In addition, the Board should develop a comprehensive policy regarding food purchases.

Status

Implemented

The Board evaluated the need for each debit card and policies and procedures for debit card use are included in the district's purchasing policy implemented in April 2016. The policy prohibits use of the debit cards for cash advances or personal purchases and details the supporting documentation required to be submitted for each purchase. The policy also addresses debit card assignments and check out procedures for authorized users, and the district's current card assignments and authorized users are in accordance with policy.

We reviewed debit card transactions posted to the May and June 2016 bank statements. No cash advances occurred, vendor invoices listed the district as the customer, and no purchases were split.

The Board also implemented a food and beverage policy in January 2016, which allows the purchase of food and beverages for incidents, training, and district business at the approval of the Board President, Fire Chief, or commanding officer.

1.3 Online transactions

The Board President used the district's eBay account to make district, personal, and company purchases. Due to the similar nature of some items purchased, we could not always determine which eBay account transactions were for the district. He also used the district's debit card to pay for personal purchases made online and reimbursed the district for these purchases. However, by using the district's eBay account and debit card he may have avoided paying sales tax.



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Recommendation

The Board of Directors ensure the district's eBay account and debit card are used only for district purchases, and evaluate the need for online purchases. Formal policies and procedures regarding online transactions should be adopted.

Status

Partially Implemented

The Board has not implemented adequate procedures to ensure the district's eBay account is used only for district purchases. While the Board documents its review of a list of bills and the bank statements monthly and reviews the transactions for personal use, it does not obtain/review the detailed eBay account transactions report. Board members indicated they evaluated the need for online purchases and plan to continue such purchases with improved controls. As discussed in section 1.2, the district's newly adopted purchasing policy clearly prohibits personal use of district debit cards. However, with regard to online accounts and transactions, the policy vaguely states "all online internet accounts will be established as its own account," and provides no further procedures addressing the handling or reviewing of online transactions, such as who has access to the district's eBay account, how online purchases are to be made (through debit card or PayPal), and documentation to be obtained and reviewed to ensure the online account is used only for district business. We requested and reviewed an eBay account transaction report for May and June 2016, and did not identify any personal purchases being made from the district's online account.

2.1 Capital Assets - Capital asset records

The district did not maintain records of capital assets, including land, buildings, vehicles, equipment, and other personal property. The district did not always tag or otherwise identify capital assets as district property or perform physical inventories of district property. Some district assets were tagged as property of the Goodman Volunteer Fire Department and others as property of the Goodman Area Fire Protection District. Other district assets were tagged with a unique barcode and number; however, the district did not account for the assigned barcodes and numbers.

Recommendation

The Board of Directors ensure capital asset records are maintained, assets are properly tagged for identification, and annual physical inventories are performed and compared to detailed records.

Status

Implemented

A complete physical inventory of land and buildings, vehicles, equipment, and other personal property was performed and all items were properly tagged. The inventory was completed in July 2016. Board members indicated annual physical inventories will be completed in the future and compared to the capital asset listing.



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2.2 Capital Assets - Capital asset storage

Numerous district assets were maintained in various locations on the Board President's personal 200 acre property, and a district generator was maintained at the personal residence of the district's Lieutenant. The Board President also operated a backhoe and excavating company on his property and rebuilt/repared personal and district vehicles and equipment using new and used parts, salvaged vehicles, and equipment stored at his property. District assets were not always shielded from weather and vegetation growth. The district did not have specific plans for the use of many of these district assets, and had not made efforts to identify unneeded items or taken any action to sell or salvage unneeded or unused items, as appropriate. It is questionable why the district was storing assets on personal property when the district maintained buildings and land at 3 different locations within the district. The district did not have a written agreement detailing issues related to the storage of the district assets, such as access and liability.

Recommendation

The Board of Directors ensure capital assets are stored on district property and dispose of unneeded/used assets. Until district assets can be relocated or properly disposed, the Board should enter into a written agreement with President Morgan regarding access to and the storage of district assets.

Status

Partially Implemented

Numerous district assets still remain at the personal residence of the Board President or at the personal residence of the district's Captain, formerly the district's Lieutenant. The Board evaluated and determined that some district assets still need to be stored at locations not owned by the district due to storage limitations. The Board entered into written agreements with the Board President and the district's Captain regarding storage of the district's assets, which include a list of assets stored at their residences. The agreements expire in April 2017, but the Board indicated the agreements will be renewed annually as necessary. While these agreements indicate the Board President and the district's Captain will exercise reasonable care to protect property from theft or damage, no additional steps were taken to further secure the assets and assets are still being commingled with personal property. The Board President indicated district officials plan to identify unused/unneeded items and dispose of them by the end of 2016. The Board indicated the current arrangements will be reconsidered, as assets are disposed of and when storage agreements are renewed.

3.1 Disbursements - Approval process

The Board's disbursement approval process needed significant improvement. The Board did not maintain a list of bills approved, did not properly approve debit card transactions and ACH transactions, and did not document its approval of individual invoices. In addition, the Board did not receive a copy of the district's bank statement for review, which could have assisted the Board in reviewing all debit card transactions and ACH transactions made from the bank account.



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Recommendation

The Board of Directors ensure complete lists of bills are prepared; the Board's approval is reflected on the lists; the approved list of bills is compared to invoices, checks written, and debit card transactions posted; and the lists are retained.

Status

Implemented

Beginning March 2016, the Board receives a complete list of bills (including debit card and ACH transactions) for approval at Board meetings. The Board documents its approval each month and retains the approved lists. Board members indicated the list of bills is compared to invoices, checks written, and debit card transactions posted before they approve the list of bills for payment. The Board also receives and documents its review of district bank statements each month.

**4.1 Accounting Controls,
Procedures, and
Records - Segregation
of duties**

Accounting duties were not segregated, and there was no supervisory review of the work performed by the Board Secretary/Treasurer, who was responsible for all record-keeping duties of the district.

Recommendation

The Board of Directors segregate the accounting duties to the extent possible and ensure documented independent reviews of the record-keeping functions are performed.

Status

Implemented

The Board hired a secretary to assist the Board Secretary/Treasurer. The Board Secretary/Treasurer prepares and distributes checks, while the secretary prepares the list of bills from the checks written, debit card invoices, and online purchase invoices. They prepare the bank reconciliations together. The Board documents its review of the monthly list of bills to be paid, the bank reconciliation, and bank statements.

**4.2 Accounting Controls,
Procedures, and
Records - Receipt slips**

The district did not issue receipt slips for monies received in accordance with district bylaws, which require the Treasurer to receive and give receipts for money due and payable to the district. Although monies received were recorded in the district's computerized accounting system, the method of payment was not denoted and the system did not assign a receipt and/or transaction number.

Recommendation

The Board of Directors ensure prenumbered receipt slips are prepared for all monies received and reconciled to the composition of receipts recorded in the accounting system and deposits.



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Status

Partially Implemented

The Board Secretary/Treasurer prepared prenumbered receipt slips for 2 receipts totaling \$10 of the \$2,976 received during May, June, and July of 2016. Receipt slips were not prepared for property tax payments received by mail and rent payments. The Board adopted new bylaws in April 2016; however, the new bylaws do not address accounting policies and procedures. The Board President indicated the Board plans to adopt a resolution regarding accounting policies in October 2016. The Board indicated the district discontinued accepting cash receipts; therefore, the reconciliation of the composition of receipts recorded in the accounting system and deposits is no longer necessary.

5. Budgetary Procedures

The Board did not have adequate procedures to prepare or monitor budgets.

District budgets prepared did not contain all required elements. The budgets presented only anticipated revenues and expenditures. The budgets did not include a budget message, and actual or budgeted amounts for the 2 preceding years. In addition, beginning available resources and estimated and actual ending available resources were not included in the budgets.

The Board did not adequately monitor budget-to-actual revenues and expenditures, and actual expenditures exceeded budgeted amounts.

Recommendation

The Board of Directors prepare annual budgets that contain all information required by state law, and ensure the budget and financial condition are adequately monitored and monthly financial statements have adequate detail.

Status

Not Implemented

The district's budget for the year ended December 31, 2016, did not contain all required elements. It did not include a budget message, budgeted amounts for 2015, or actual amounts for 2014. In addition, the budget only included actual amounts for 10 months of 2015 and did not include beginning available resources and estimated and actual ending available resources. The Board has taken no steps to adopt an amended 2016 budget to include all the required elements. The Board President indicated the Board would include all of the required information in the 2017 budget.

The Board has taken no steps to adequately monitor the budget and financial condition of the district. The Board President indicated a detailed monthly financial statement would be implemented after preparation of the 2017 budget.



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7. **Electronic Data Security** The district did not backup financial and other computer system data leaving the district's electronic data at risk if data could not be recovered. The district did not have antivirus software installed on the computer systems to ensure protection of district data.

Recommendation

The Board of Directors should ensure computer data is backed up periodically and stored at an off-site location. In addition, the Board should ensure the district's computer systems are protected by installing and regularly updating antivirus software, and perform system scans to detect destructive viruses.

Status

Partially Implemented

Board members indicated computer data is backed up monthly, but is not stored at an off-site location. Board members also indicated the district purchased and installed antivirus software, which regularly updates and performs system scans to detect viruses.