



Office of Missouri State Auditor
Nicole Galloway, CPA

**Smithville Area Fire Protection
District**



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Smithville Area Fire Protection District

| | |
|--------------------------------------|---|
| Incentive Payments | The Smithville Area Fire Protection District paid \$209,072 in year-end incentive payments (including fringe benefits), to all full-time district employees (including the Fire Chief and Assistant Fire Chief) between December 2011 and December 2015. These payments are likely bonuses and in violation of the Missouri Constitution, because they are not part of a formal pay plan and seem to represent additional payments for services previously rendered because there is no documentation of additional hours worked by district employees to support the payments. |
| Fire Station #3 | The Board authorized the issuance of general obligation bonds in 2015 with the proceeds to be used for the construction of a new fire station, Station #3, at a cost of approximately \$1.8 million. However, the Board did not ensure the district had sufficient funding available to staff the station and cover ongoing and future operational and maintenance costs associated with it. Additionally, the district did not retain any documents related to preplanning and development of the station. |
| Firefighter Safety and Training | The district has not established adequate policies and procedures for firefighter safety and health, training, and respiratory protection. The district has not established a written occupational safety and health program or a written training, education, and professional development program. The district has not implemented a written respiratory protection program and has not performed testing on respirators as recommended by the manufacturer. |
| Procurement Procedures and Contracts | Controls and procedures over procurement and district contracts need improvement. The district has not established policies and procedures for the selection of vendors providing professional services. In addition, the district did not solicit requests for proposals for various professional services, has not periodically conducted a competitive selection process for various professional services, and did not always enter into written contracts with the providers selected. The district does not have a formal bidding policy and bids were not solicited for several purchases. |
| Accounting Controls and Procedures | Weaknesses exist with the district's accounting controls and procedures. The Board has not established adequate segregation of duties and review processes over the various financial accounting functions performed by the Fire Chief and Administrative Assistant. The district does not have procedures to follow up on and resolve differences between accounting records and bank reconciliations timely. Significant weaknesses exist in the district's procedures for receipting monies and making deposits. |
| Disbursements | Controls and procedures over district travel and training expenditures, credit card purchases, and payment for local meals need improvement. The district incurred unnecessary travel and training costs due to the former Fire Chief traveling to the location of but not attending a conference. In addition, the district paid excessive travel advances for meals and incidental expenses to district employees. The district did not maintain adequate documentation to support some disbursements made using district credit cards and district review procedures for credit card purchases need improvement. The Board has not established a policy for providing employee meals while not on travel status. |

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| Sunshine Law | The Board's procedures for complying with the Sunshine Law, maintaining minutes of meetings, and retaining copies of certain email messages need improvement. The Board did not comply with state law regarding meeting minutes and closed sessions. The district did not retain adequate documentation to support certain Board decisions and meeting minutes do not typically include Board discussions held to support decisions made. The district has not adopted a written policy regarding public access to district records as required by state law. The district does not send the Fire Chief (the custodian of records) copies of email messages that are considered to be a public record under state law. |
| District Policies And Procedures | District policies and procedures need improvement. The Board has not established written bylaws or other formal policies and procedures for the administration of the district. The district's Standard Operating Guidelines, which serve as a guide for operations within the district and are designed to assist employees in performing their job duties, do not include guidelines to address certain important issues. The Board did not prepare annual budgets for all district funds as required by state law and budget documents did not include all statutorily required information. |
| District Property and Vehicle Usage | Controls and procedures over district property and vehicle usage need improvement. District procedures for the maintenance and repair of vehicles and equipment are not adequate. The district's employment contract with the former Fire Chief stated the district must provide him with a vehicle and fuel to be used for district business and personal use. However, the contract did not include language that limited or further explained allowable/unallowable personal use and any associated record-keeping or reporting requirements. The district has not developed procedures to identify capital asset purchases and dispositions throughout the year and records to account for district property are not adequate. |
| Employment Contracts | The district entered into multi-year employment contracts without terms allowing the district to terminate the employee for reasons other than for cause. |
| Electronic Data Security | The district does not have security controls in place to lock computers after a specified number of incorrect logon attempts. In addition, the district does not periodically test for recovery of data from backup files. |

In the areas audited, the overall performance of this entity was **Poor**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

Smithville Area Fire Protection District

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NICOLE GALLOWAY, CPA

Missouri State Auditor

Board of Directors
Smithville Area Fire Protection District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Smithville Area Fire Protection District. We have audited certain operations of the district in fulfillment of our duties. The district engaged Accounting Solutions Group, LLC, a Certified Public Accounting firm, to audit the district's financial statements for the year ended December 31, 2016. To minimize duplication of effort, we reviewed the CPA firm's audit report. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2016. The objectives of our audit were to:

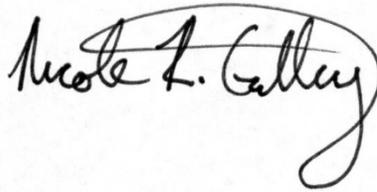
1. Evaluate the district's internal controls over significant management and financial functions.
2. Evaluate the district's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the district, as well as certain external parties; inspection of capital assets; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the district's management and its audited financial report and was not subjected to the procedures applied in our audit of the district.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Smithville Area Fire Protection District.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

| | |
|--------------------|----------------------------------|
| Senior Director: | Regina Pruitt, CPA |
| Audit Manager: | Heather R. Stiles, MBA, CPA, CFE |
| In-Charge Auditor: | Julie A. Moulden, MBA, CPA |
| Audit Staff: | Austin T. Olson |

Smithville Area Fire Protection District

Management Advisory Report

State Auditor's Findings

1. Incentive Payments

The Smithville Area Fire Protection District paid \$209,072 in year-end incentive payments¹ (including fringe benefits), to all full-time district employees (including the Fire Chief and Assistant Fire Chief) between December 2011 and December 2015. While these payments were authorized by the Board of Directors, the actual payments exceeded initial estimates presented to the Board for approval by \$32,500 (before taxes). In addition, we found the incentive payments made were based on inaccurate or unreasonable calculations, which inflated the total amount paid by \$86,360.

These payments are likely bonuses and in violation of the Missouri Constitution, because they were not part of a formal pay plan and seem to represent additional payments for services previously rendered because there is no documentation of additional hours worked by district employees to support the payments. In November 2011, the Board approved a one-time payment in lieu of a raise (incentive payment) based on 10 percent of the annual budget carryover as recommended in a proposal from the former Fire Chief. Board meeting minutes indicated these incentive payments continued to be authorized annually between 2012 and 2015. According to the former Fire Chief's proposal to the Board, he recommended that the district implement an annual employee incentive program to encourage district employees to be "conservation minded in all aspects of the (district's) operations." There is no documentation indicating the employees were informed of the purpose of the incentive payments or that the employees were subsequently evaluated on the success of the program prior to the incentives being paid each year.

Incentive payment
process not formalized

While the Board approved the proposed funding of these incentive payments annually based on the former Fire Chief's estimated annual budget carryover, the Board did not directly approve individual incentive payments and we saw no documentation to indicate the Board received detailed information on individual incentive payments made or was informed the actual incentive payments significantly exceeded the initial estimates provided. In addition, the process to award these incentive payments to district employees was not formalized or documented to clearly define how the annual budget carryover amount used to determine these incentive payments would be calculated.

According to a November 16, 2011, letter to the Board from the former Fire Chief, the incentive payments would be based on 10 percent (increased to 15 percent in 2014) of the annual budget carryover and would be included on the employee's last paycheck before Christmas. However, the process to determine the annual budget carryover was never clearly defined. While this

¹ Annual incentive payments paid to district employees between 2011 and 2015 totaled \$174,176. The district incurred \$21,571 in additional costs for retirement benefits and \$13,325 in employer payroll taxes (Social Security and Medicare).



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2011 letter did not provide an estimated incentive payment total, letters submitted to the Board in subsequent years included an estimated incentive payment amount per employee based on 12 full-time employee (FTE) positions.

The following table shows the estimated incentive payment per district employee and the total estimated incentive payment amount presented to the Board by the former Fire Chief. In addition, this table includes the combined actual incentive payment amounts paid for the years 2012 through 2015 and documents the difference between estimates presented to the Board for approval and actual incentive payments made.

| Incentive Year | Estimate per FTE | Total Estimate | | Actual | Difference |
|----------------|---------------------|-------------------|-----------------------|--------|------------|
| | | Estimate | Presented to Board | | |
| 2012 | \$ 1,600 | 19,200 | 28,469 | 9,269 | |
| 2013 | 1,350 | 16,200 | 21,005 | 4,805 | |
| 2014 | 3,000 | 36,000 | 47,037 | 11,037 | |
| 2015 | 3,600 | 43,200 | 50,589 | 7,389 | |
| Total | \$ 9,500 | 114,600 | 147,100 | 32,500 | |

The actual incentive payments paid in each of these years exceeded the estimated amount presented to the Board. In total, between 2012 and 2015, actual incentive payments exceeded estimated amounts presented to the Board by approximately \$32,500 (before taxes).

Incentive payment
calculations

In July 2017, the State Auditor's Office (SAO) began requesting documentation from the district detailing how these annual incentive payments had been calculated. Initially, district personnel could not locate any documentation detailing how the former Fire Chief calculated the budget carryover amount used each year when determining employee incentive payments. On October 10, 2017, they located documentation detailing how the incentive payments had been calculated between 2012 and 2015. The SAO issued subpoenas to both the district and the former Fire Chief (see Appendixes B and C) to obtain documentation of how the 2011 incentive payments had been calculated. However, neither district personnel nor the former Fire Chief could locate documentation to support incentive payment calculations for 2011.

We reviewed incentive payment calculation documentation provided by the district to determine how the former Fire Chief had calculated the annual budget carryover amount used in the annual incentive payment calculation. Based on our review, the former Fire Chief determined the budget carryover amount each year based on the sum of variances between budgeted and actual revenues and expenditures. However, the budget variances documented in



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supporting documentation were not always mathematically accurate. In addition, budget variances were determined prior to the end of the year and did not always include adjustments for remaining year-end activity.

The following table shows the former Fire Chief's estimated budget carryover for each year the district authorized incentive payments based on documentation obtained from the district, with the exception of 2011, as compared to the actual budget carryover we calculated based on audited financial statements. For 2011, we calculated the estimated budget carryover of \$270,770 based on the \$27,077 in incentive payments paid that year. We determined that the estimated budget carryover amounts significantly exceeded the actual budget carryover amounts (per audited financial statements). In total, for the 5 years in which incentive payments were given, the estimated carryover exceeded the actual carryover by more than \$672,000.

| | 2015 | 2014 | 2013 | 2012 | 2011 | Total |
|--------------------------|------------|---------|---------|---------|---------|-----------|
| Estimated Carryover | \$ 337,258 | 313,579 | 209,781 | 284,690 | 270,770 | 1,416,078 |
| Actual Carryover (1) | 149,283 | 120,065 | 116,814 | 242,230 | 114,826 | 743,218 |
| Difference | 187,975 | 193,514 | 92,967 | 42,460 | 155,944 | 672,860 |
| Board Approved Incentive | 15% | 15% | 10% | 10% | 10% | |
| Excess Incentive Payment | \$ 28,196 | 29,027 | 9,297 | 4,246 | 15,594 | 86,360 |

(1) Based on the General Fund's excess of cash receipts over cash expenses reported in the district's annual financial statement audit.

Differences between the estimated carryover amount calculated by the former Fire Chief and the actual carryover amount calculated by the SAO based on audited financial statements, include:

- The former Fire Chief included property tax revenue derived from the district's general obligation bond levies in Clay County and Platte County in excess of budgeted amounts in the estimated carryover calculation. However, this revenue is restricted for the principal and interest on the district's general bond obligations and is not used for ongoing operational costs of the district. Therefore we excluded it when calculating the actual carryover balance for the General Fund.
- Variances between budgeted and actual revenues and expenditures used to calculate the estimated budget carryover were based on actual revenues and expenditures through mid-December and adjustments to these variances, if any, for additional revenues and/or expenditures incurred through the remainder of the year were not sufficient. Our actual carryover amount calculation was based on actual total revenues and expenditures for the year.



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Conclusion

Because the former Fire Chief inflated the estimated carryover each year by including restricted revenues and not including all General Fund revenues and expenditures for the year, incentive payments made to district employees between 2011 and 2015 exceeded amounts authorized by the Board by \$86,360 (before taxes).

The annual incentive payments likely represented additional compensation for services previously rendered and, as such are in violation of Article III, Section 39(3), the Missouri Constitution, and contrary to Attorney General's Opinion No. 72-1955 (June 14, 1955), which states, ". . . a government agency which derives its power and authority from the Constitution and laws of this state would be prohibited from granting extra compensation in the form of bonuses to public officers or servants after the service has been rendered."

Recommendation

The Board of Directors should ensure all employee compensation is authorized by the Board, documented in a formal pay plan as appropriate, and in compliance with state law.

Auditee's Response

The "incentive payment" program has not been followed since 2015. No member of the current Board of Directors approved the implementation or execution of the program and the current Fire Chief has no plans to propose any similar payments.

The Board agrees that the payments, as approved and made in 2011 through 2015, were an improper use of public funds in violation of the Missouri Constitution. The Board also agrees that it appears the payment amounts were calculated improperly, and were overpayments of even the amounts "approved" by the former Board.

The current Board and the Fire Chief are committed to a pay plan that fairly compensates the district's employees, helps ensure the professionalization of the staff, and complies with state and federal law.

2. Fire Station #3

The Board authorized the issuance of general obligation bonds in 2015 with the proceeds to be used for the construction of a new fire station, Station #3, at a cost of approximately \$1.8 million. However, the Board did not ensure the district had sufficient funding available to staff the station and cover ongoing and future operational and maintenance costs associated with it. Additionally, the district did not retain any documents related to preplanning and development of the station.

Station #3, located at 18315 Collins Road in Smithville, Missouri, was placed into operation in May 2017 with minimal equipment and no staff. As of August 1, 2018, this station continues to be unstaffed and all emergencies are responded to from Station #2. While district officials have indicated they will not be able to staff Station #3 without a tax increase, which requires approval



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by district citizens, they have not completed a cost analysis to support this statement.

In 2009, the district received a donation of 2 acres of land for the construction of a new fire station and in November 2012 voters approved issuance of \$3 million in general obligation bonds to construct and furnish a new fire station and acquire fire trucks and other firefighting and rescue equipment. However, the associated general property tax levy increase necessary to finance increased staffing and the subsequent operations and maintenance of the new fire station failed at that election (November 2012) and again in a special election in August 2013. The district has not attempted to pass a general property tax levy increase since August 2013.

In July 2013, the district paid an architectural firm to prepare a preliminary design of the new fire station. The district opted to move forward with the construction of the new fire station in July 2014, even though the general property tax levy increase had failed to pass. The district published a request for qualifications (RFQ) for an architectural firm to assist in the construction of the station in September 2014. However, as discussed further in MAR finding number 4.1, the evaluation of RFQ's received was not documented. The district authorized the issuance of the general obligation bonds in December 2015.

According to the former Fire Chief, the district decided to move forward with the construction of the new fire station in 2015, even though the general property tax levy increase had failed to pass, because construction costs and costs to purchase equipment for the new fire station continued to increase annually thereby decreasing the bond's purchasing power. In addition, the district wanted to place the station in operation in hopes it would improve the district's fire protection rating and lower the cost of homeowners insurance for district citizens.

District officials could not provide any documentation to support how they determined the bond amount necessary to fund the construction of the new fire station and purchase additional equipment. In addition, the district has not performed an analysis of the proposed additional costs that would be associated with staffing, operating, and maintaining the new fire station and documented that an increase to the district's general operating tax levy is necessary to fund the new fire station's operations. The SAO obtained assurances from the district that this documentation does not exist after we were forced to issue subpoenas to the district and former Fire Chief (see Appendixes B and C) after making multiple requests to obtain the documentation.

Long-term financial planning, including determining funding needs for all operating and maintenance costs of the district, is essential to ensure district resources are used effectively and efficiently. Failure to adequately plan for



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future needs and potential contingencies may result in wasted resources and/or underutilized assets.

Recommendation

The Board of Directors should determine additional funding necessary to pay for expenses associated with ongoing and future operations and maintenance costs, including staffing, for Station #3. In addition, the Board should evaluate options to fund these additional costs.

Auditee's Response

The Board of Directors agrees that the 2015 authorization of general obligation bonds committed the district to the construction of a fire station without a clear funding plan for staffing the station. None of 2015 Board members remain on the Board. Since that time, the district has increased the number of directors from three to five, hired a new Fire Chief, and increased staffing levels. With new, stabilized leadership in place, and construction on station #3 complete, the Board will evaluate options for funding operations at the new station. This will be a part of the district's current engagement with a consultant to develop a strategic plan for the district's next 3 to 5 years. The Board expects this to play a big role in addressing the audit concerns over operations and staffing at Fire Station #3. Through this process, the Board hopes to demonstrate commitment and competence to the citizens of the district, and present a funding plan appropriate for the district's future.

3. Firefighter Safety and Training

The district has not established adequate policies and procedures for firefighter safety and health, training, and respiratory protection.

3.1 Safety and training programs

The district has not established a written occupational safety and health program or a written training, education, and professional development program. All volunteer district firefighters are required to have basic firefighter certification. All full-time district firefighters are required to have firefighter I and II certifications. The district has numerous training sessions on a variety of topics available in-house; however, a written training program has not been developed.

A written safety program is necessary to protect firefighters from injury and occupational diseases resulting from exposure to hazardous materials and environments. A written training program is necessary to provide firefighters with the best possible preparatory knowledge, skills, and abilities in order to provide district citizens with safe, efficient, and effective emergency response services. In addition, written safety and training programs could limit the district's potential liability for insurance and legal claims.

3.2 Respiratory protection

The district has not implemented a written respiratory protection program and has not performed testing on its respirators as recommended by the manufacturer.



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The district did not perform annual performance and fit testing² on the respirators (self-contained breathing apparatuses [SCBA]) used by district employees between 2013 and 2016. The former Fire Chief stated he was not aware these tests were needed. These tests were scheduled by the current Fire Chief upon being appointed as Acting Fire Chief in March 2017. Performance tests were performed in April 2017 and fit tests were performed in June 2017.

A written respiratory protection program is necessary to ensure (1) fit testing and performance testing are performed on the SCBA's in accordance with the manufacturer's recommendations, (2) the SCBA's are properly inspected and maintained, and (3) employees are trained on potential respiratory hazards and proper use of the respirators. The manufacturer recommends fit testing prior to initial use of the respirator, whenever a different respirator face piece is used, and at least annually thereafter. In addition, the manufacturer recommends SCBA's be tested on a breathing machine at least annually.

Recommendations

The Board of Directors:

- 3.1 Seek assistance from available resources, including the state Fire Marshal's Office in the Missouri Division of Fire Safety and the University of Missouri Fire and Rescue Training Institute, and develop a written occupational safety and health program and a written training program for district firefighters.
- 3.2 Establish a written respiratory protection program and ensure self-contained breathing apparatuses are tested in accordance with the manufacturer's recommendations.

Auditee's Response

- 3.1 *The district will be evaluating and developing a training and professional development program, including a program on occupational safety and health, for future implementation through the development of new Standard Operating Guidelines (SOGs) which are in the process of being rewritten.*
- 3.2 *Annual SCBA testing had resumed prior to this audit's findings being issued, with testing occurring in 2017 and 2018. A written policy will be developed during the Board's strategic planning and the development of new SOGs.*

² A fit test ensures the seal between the respirator's face piece and the face are adequate to prevent leaks. A performance test ensures the SCBA maintains positive pressure in the face piece throughout the breathing cycle to ensure the wearer will not inhale any of the external atmosphere.



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4. Procurement Procedures and Contracts

Controls and procedures over procurement and district contracts need improvement.

4.1 Professional services and contracts

The district has not established policies and procedures for the selection of vendors providing professional services. In addition, the district did not solicit requests for proposals for various professional services, has not periodically conducted a competitive selection process for various professional services, and did not always enter into written contracts with the providers selected. Our review of disbursements for professional services incurred during the year ended December 31, 2016, noted the following issues:

| Service Provided | Cost (1) | Competitively Procured | Written Contract |
|---|-----------|------------------------|------------------|
| Litigation services | \$ 16,973 | No | Yes |
| Information systems and information technology services | 9,996 | No | Yes |
| Auditing services | 5,200 | No | Yes |
| Legal services | 2,430 | No | No |

(1) Total amount expended for the year ended December 31, 2016.

Until March 2017, the same attorney provided legal services to the district for approximately 6 years without solicitation of proposals during that period and the district had not entered into a written contract for these services. In March 2017, the Board informally solicited proposals for a new attorney based on a list of attorneys recommended. While the Board received proposals from 3 separate law firms, district officials did not document the evaluation process used to select the new attorney and did not enter into a written contract with the attorney for these services. The Board President indicated the attorney selected was the least expensive of the attorneys interested in representing the district. In addition, the district has used the same independent CPA firm since 1991 to perform its annual financial statement audits and no proposals have been solicited during that period.

In addition, while the district published a notice requesting qualifications of architectural firms for design and consulting services associated with the construction of Station #3 in September 2014; the district did not document the evaluation process used to determine the most qualified architectural firm. The district received qualifications from 5 architectural firms and selected the architectural firm that had previously provided preliminary designs for Station #3 in July 2013. The district paid the firm \$110,785 for the design services. The SAO obtained assurances from the district that this evaluation does not exist after we were forced to issue subpoenas to the district and former Fire Chief (see Appendixes B and C) after making multiple requests to obtain the documentation.



Smithville Area Fire Protection District
Management Advisory Report - State Auditor's Findings

Soliciting proposals for professional services is a good business practice, helps provide a range of possible choices, and allows the district to make better-informed decisions to ensure necessary services are obtained from the best qualified provider taking expertise, experience, and cost into consideration. In addition, documentation of the evaluation and selection process should be retained to demonstrate compliance with applicable laws or regulations and support decisions made. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

4.2 Bidding

The district does not have a formal bidding policy and bids were not solicited for the following purchases made during the year ended December 31, 2016.

| Item | Cost |
|--|-----------|
| Comprehensive general and automobile liability insurance | \$ 30,078 |
| Pumper 12 repairs | 14,000 |
| Pumper 11 repairs | 14,084 |

In addition, while the former Fire Chief indicated all bidding requirements were followed for the installation of a solar electric system and solar panels at Station #3 (\$146,495), the installation of a paging and alert system at Station #2 (\$20,973), the replacement of the roof at Station #1 (\$33,176), and the purchase of a pumper hose (\$10,698), district personnel could not provide any documentation showing the district published a notice for these bids, as required by state law. The SAO obtained assurances from the district that this documentation does not exist after we were forced to issue subpoenas to the district and former Fire Chief (see Appendixes B and C) after making multiple requests to obtain the documentation.

Section 321.220(4), RSMo, requires the district to publish notice for bids on purchases of \$10,000 or more. In addition, competitive bidding helps ensure all parties are given an equal opportunity to participate in the district's business. Documented formal bidding procedures provide a framework for economical management of district resources and help ensure the district receives fair value by contracting with the lowest or best bidders. Complete documentation should be maintained for all bids received and reasons noted why the bid was selected.

Recommendations

The Board of Directors:

- 4.1 Periodically solicit proposals for professional services and enter into written contracts for those services. In addition, the Board should establish a policy to address the selection of professional services.



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Management Advisory Report - State Auditor's Findings

Auditee's Response

4.2 Establish formal bidding policies and procedures, including documentation requirements related to bid specifications, the bids or quotes received, and justification for bids selected and maintain documentation of decisions made.

4.1 *The district has begun the process of rebidding its legal, accounting, and informational technology providers and plans to have new agreements in place by the end of 2018. New agreements will be in writing. Written guidance on the subject will be developed and implemented with the SOGs rewrite that is in progress.*

4.2 *Bid policies and procedures will be developed in conjunction with the SOGs rewrite that is in progress.*

5. Accounting Controls and Procedures

Weaknesses exist with the district's accounting controls and procedures. The district receives monies for sales and property taxes, permits, inspections, reports, and other miscellaneous items.

5.1 Segregation of duties and oversight

The Board has not established adequate segregation of duties and review processes over the various financial accounting functions performed by the Fire Chief and Administrative Assistant.

The Administrative Assistant is responsible for all duties related to collecting and recording monies received, preparing and making deposits, making disbursements based on authorization by the Fire Chief, and performing monthly bank reconciliations. The Fire Chief typically documents his review and approval of authorized disbursements, but does not perform a documented review of other accounting functions and records.

While a Board member signs all checks, a documented review and approval of individual invoices and other supporting documentation is not performed. In addition, the list of disbursements approved by the Board each month does not include payroll disbursements (approximately \$53,440 per month during the year ended December 31, 2016).

The lack of segregation of duties and adequate oversight allowed many of the issues described throughout this report to occur.

To reduce the risk of loss, theft, or misuse of funds, and ensure all transactions are accounted for properly and assets are adequately safeguarded, adequate controls, including proper segregation of duties, and Board oversight of accounting functions is necessary. In addition, the Board should require a complete and accurate list of all disbursements be provided for its review approval and ensure the list is compared to individual invoices and other supporting documentation.



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5.2 Bank reconciliations

The district does not have procedures to follow up on and resolve differences between accounting records and bank reconciliations timely. The Capital Project Fund's book balance was overstated by \$3,204,132 for almost 2 years. In December 2015, the district received \$3,204,132 in bond proceeds and the district's accountant posted a journal entry in the accounting system to record this transaction. In January 2016, the Administrative Assistant recorded the receipt of these bond proceeds again in the accounting system, not realizing the accountant had already posted this transaction to the system, resulting in an overstatement of \$3,204,132. In October 2016, the district's accountant provided the Administrative Assistant the journal entry necessary to reverse the duplicate entry; however, this reversing entry was posted incorrectly to the financial records and the accounting error not corrected until November 2017.

Failure to resolve differences and reconciling items timely increases the risk that other errors or misstatements will not be detected and corrected timely.

5.3 Receipting and depositing

Significant weaknesses exist in the district's procedures for receipting monies and making deposits. Receipt slips were not issued for some monies received. In addition, deposits were not made timely or intact and receipts are not kept in a secure location until deposited.

- District personnel do not always issue receipt slips for monies received. A cash count performed on May 9, 2017, identified 7 of 10 receipts, including 6 checks and 1 cash receipt totaling \$7,925 of the \$8,000 counted, had not been receipted. The Administrative Assistant indicated she issues receipt slips for all monies she receives; however, receipt slips are not always issued for monies received when she is not present.
- The Administrative Assistant does not deposit receipts intact or timely and does not account for the numerical sequence of receipt slips issued. The Administrative Assistant indicated deposits are typically prepared about every 2 weeks. Our review of the March 9, 2016, deposit noted receipt slips 380367, 380466, 380468, and 380470 issued between February 19 and March 1, 2016, and totaling \$320, were not deposited until March 9, 2016. In addition, receipt slip 380469 for a \$25 check, receipted on February 25, 2016, was not included in this deposit and was not deposited until April 12, 2016. The Administrative Assistant could not provide an explanation as to why this receipt was excluded from the March 9, 2016, deposit.
- The Administrative Assistant does not always record the method of payment on manual receipt slips. As a result, the composition of receipts (cash, check, or money order) cannot be reconciled to the composition of deposits.



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- Checks and money orders received are not restrictively endorsed at the time of receipt and are only endorsed when deposits are prepared.
- Receipts are not always kept in a secure location until deposited. The Administrative Assistant indicated monies received when she is not present are placed on her desk, which is accessible by all district personnel.

Failure to implement adequate receipting and depositing procedures increases the risk that loss, theft, or misuse of monies and the likelihood that errors will go undetected. Procedures should be established to ensure all monies are properly receipted, maintained in a secure location, and deposited intact and timely upon receipt.

Recommendations

The Board of Directors:

- 5.1 Segregate accounting duties to the extent possible and implement appropriate review and monitoring procedures. In addition, the Board should ensure complete lists of disbursements are prepared and compared to invoices and other supporting documentation.
- 5.2 Ensure any differences between accounting records and reconciliations are investigated and resolved timely.
- 5.3 Ensure receipt slips are issued for all monies received with the method of payment indicated on the receipt slip, and the composition of deposits is reconciled to the composition recorded on receipt slips. The district should also ensure receipts are maintained in a secure location until deposited, checks and money orders are restrictively endorsed immediately upon receipt, and deposits are made timely and intact.

Auditee's Response

- 5.1 *The Board continues to examine the feasibility of segregation of financial duties, but small support staff limits that option. The new Board approves all disbursements on a monthly basis, including payroll disbursements.*
- 5.2 *The Board has evaluated its reconciliation procedures and has directed staff to perform reconciliations and investigate and resolve any discrepancies identified timely. Written guidance on the subject will be developed and implemented with the SOGs rewrite that is in progress.*
- 5.3 *The district discontinued fees for burn permits, which was the only cash accepted by the district. Now, all payments received are by*



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check. Policies on receipting, depositing, and restrictive endorsements will be implemented as part of the SOGs rewrite.

6. Disbursements

6.1 Travel and training expenditures

Controls and procedures over district travel and training expenditures, credit card purchases, and payment for local meals need improvement.

The district incurred unnecessary travel and training costs due to the former Fire Chief traveling to the location of but not attending a conference. In addition, the district paid excessive travel advances for meals and incidental expenses to district employees. Travel costs totaled \$6,169 for the year ended December 31, 2016. As discussed in MAR finding number 8.2, the district does not have a travel policy to address per diem rates for meal and incidental expenses.

The district paid the conference registration fees of \$615, lodging totaling \$738, and a travel advance of \$444 for meals and incidentals for the former Fire Chief to attend the Fire-Rescue International's annual conference held in Dallas, Texas, from August 13, 2014, through August 16, 2014. The Fire Chief stated the former Fire Chief did not arrive at the conference until the first day's session had ended and did not attend any of the remaining sessions of the conference, and the district has no record of his attendance. While the district received a refund of \$50 from the former Fire Chief because he returned from the conference one day early, the district wasted \$1,747 due to the former Fire Chief incurring unnecessary travel costs.

The Fire Chief indicated the district prepays for meals and incidental expenses at the federal Continental United States (CONUS) per diem rate when employees travel. However, our review noted rates for the first and last day of travel were not reduced in accordance with the CONUS schedule, the daily amount advanced was more than CONUS rates authorized, and the number of days advanced appeared wasteful or unnecessary. For example:

- The Fire Chief, in his previous role as the Deputy Fire Chief, was advanced \$623 including \$483 for meals and incidentals and \$140 for parking for the Fire Department Instructor's conference in Indianapolis, Indiana, in April 2016, although the federal CONUS rate allowable was \$352 for this 7 day trip. According to the Fire Chief, he provided documentation to the former Fire Chief to support the monies advanced for parking fees, however district personnel could not locate it.



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| Date | Amount Advanced | CONUS Rate* | Amount Overpaid |
|----------------|--------------------|-------------|--------------------|
| April 17, 2016 | \$ 69 | 41 | 28 |
| April 18, 2016 | 69 | 54 | 15 |
| April 19, 2016 | 69 | 54 | 15 |
| April 20, 2016 | 69 | 54 | 15 |
| April 21, 2016 | 69 | 54 | 15 |
| April 22, 2016 | 69 | 54 | 15 |
| April 23, 2016 | 69 | 41 | 28 |
| Total | \$ 483 | 352 | 131 |

* CONUS rates were obtained from the United States General Service Administration website.

- The former Fire Chief was advanced \$358 for meals and incidentals for a Missouri Fire Chief's training conference held in Ridgedale, Missouri, from February 25, 2016, through February 27, 2016. While the former Fire Chief was advanced per diem through February 28, 2016, the conference ended at 3:30 P.M. on February 27, 2016, and therefore per diem for the additional day was not considered necessary.

| Date | Amount Advanced | CONUS Rate* | Amount Overpaid |
|-------------------|--------------------|-------------|--------------------|
| February 24, 2016 | \$ 62 | 41 | 21 |
| February 25, 2016 | 74 | 54 | 20 |
| February 26, 2016 | 74 | 54 | 20 |
| February 27, 2016 | 74 | 41 | 33 |
| February 28, 2016 | 74 | 0 | 74 |
| Total | \$ 358 | 190 | 168 |

* CONUS rates were obtained from the United States General Service Administration website.

To ensure travel and training expenditures are necessary and legitimate, the district should reimburse documented travel expenses rather than providing travel advances to district employees. In addition, the district should implement a procedure to require submission of training certificates to provide proof of attendance and support training expenditures incurred by the district. Taxpayers have placed a fiduciary trust in the Board to spend public funds only on items necessary and beneficial to the district.

6.2 Credit cards

The district did not maintain adequate documentation to support some disbursements made using district credit cards and district review procedures for credit card purchases need improvement. The district spent \$14,822 using credit cards between December 2015 and May 2017.

According to the district's guidelines for credit card purchases, receipts for each credit card purchase are required to be turned in to the Administrative



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Assistant and attached to the credit card bill. Both the Fire Chief and Deputy Fire Chief were issued a district credit card.

Our review of 161 credit card transactions made between December 2015 and May 2017 identified 34 transactions totaling \$2,793 where adequate documentation to support the transaction was not retained. For these transactions, either the receipt slip retained was illegible, or information documenting how the purchase related to the operation of the district was not included. These transactions included food and drink purchases at local restaurants, food and gift cards for a Christmas event, and purchases at a local surplus store.

In addition, we noted 32 transactions totaling \$880 that did not have any receipt submitted to support the purchase. These transactions included purchases at convenience stores, restaurants, auto supply stores, the post office, and hotels. As a result, monthly statements cannot be reconciled to actual purchases and the appropriateness of purchases cannot be evaluated.

Neither the Board nor someone independent of the disbursement process reviews and documents their approval of individual transactions charged to the district credit card or ensures supporting documentation for all credit card transactions is reconciled to the credit card statement.

All credit card disbursements should include proper supporting documentation that is reconciled to billing statements, and be approved by the Board to ensure the obligation was actually incurred and the disbursement represents an appropriate use of public funds.

6.3 Local meals

The Board has not established a policy for providing employee meals while not on travel status. Our review of all credit card transactions between December 2015 and May 2017 discussed in section 6.2 also noted the former Fire Chief and the Deputy Fire Chief spent approximately \$760 for food and drink purchases at local restaurants. Most of these transactions were not supported by information demonstrating how the purchase related to the operation of the district or detailing the persons in attendance. It could not be determined why the purchases were necessary.

To ensure expenditures are necessary and appropriate, the Board should develop a comprehensive policy regarding food purchases and evaluate the need for paying local meal expenses. Food expenses should be reasonable and necessary for conducting district business. Guidelines should establish the situations in which local food purchases are allowed, limits on the purchases, and required documentation. At a minimum, documentation should include a business purpose and a list of persons in attendance.



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Recommendations

The Board of Directors:

- 6.1 Reimburse documented travel expenses rather than providing travel advances, require employees to submit documentation of training attendance, and obtain reimbursement for all costs associated with the training not attended or completed.
- 6.2 Establish controls and procedures for the review and approval of all credit card purchases and ensure all purchases are supported by appropriate documentation and are reconciled to billing statements.
- 6.3 Develop a comprehensive policy regarding food purchases and ensure purchases made with district credit cards are reasonable and prudent uses of public funds.

Auditee's Response

- 6.1 *The Board is actively discussing the changes recommended, including a move to reimbursement, rather than advancement, of travel expenses. The Board will require documentation of training attendance be submitted and the district be reimbursed for costs incurred if the training is not attended. These recommendations will be considered and incorporated into the SOGs rewrite that is in progress.*
- 6.2 *These recommendations will be considered and incorporated into the SOGs rewrite.*
- 6.3 *These recommendations will be considered and incorporated into the SOGs rewrite.*

7. Sunshine Law

The Board's procedures for complying with the Sunshine Law, maintaining minutes of meetings, and retaining copies of certain email messages need improvement. The Board met in closed session 35 times between February 16, 2016, and April 24, 2018.

7.1 Closed meetings and minutes

The Board did not comply with state law regarding meeting minutes and closed sessions.

- The Board did not prepare meeting minutes for 20 of 35 closed sessions held. Minutes of closed sessions were generally only prepared and retained if the Board took a vote in the session.
- The Board did not document in open meeting minutes the specific reasons or section of law allowing the meetings to be closed for 15 of 35 closed sessions held.



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Section 610.022, RSMo, requires governmental bodies to prepare and maintain minutes of closed meetings and requires public bodies announce the specific reasons allowed by law for going into a closed meeting and to enter the vote and reason into the minutes.

7.2 Board decisions

The district did not retain adequate documentation to support certain Board decisions and meeting minutes do not typically include Board discussions held to support decisions made. For example, on August 16, 2012, the Board approved a resolution to place a \$3 million general obligation bond issue on the November 2012 ballot to construct a new fire station, purchase a new pumper, and pay bond issuance costs. However, the meeting minutes leading up to this decision do not document any discussions the Board had regarding plans to construct a new fire station. As noted in MAR finding number 2, the district could not provide any planning documents, such as a cost analysis or estimated construction costs, to support the Board's decision to move forward with this project.

Failure to maintain adequate documentation to support Board decisions can lead to subsequent uncertainty about the Board's intentions and possible incorrect interpretation of Board actions taken by the general public or other outside entities. Because minutes are the official record of actions taken by the Board, care should be taken to ensure they are accurate and provide sufficient information to identify issues discussed and decisions made, and ensure outside users understand what occurred.

7.3 Public access policy and requests for records

The district has not adopted a written policy regarding public access to district records as required by state law. A written policy regarding public access to district records would establish guidelines for the district to make records available to the public. This policy should identify a person to contact, provide an address to mail such requests, and establish fees that may be assessed for providing copies of public records. In addition, while we did not identify specific concerns with Sunshine Law requests, the district does not maintain a log or other record of public records requests to ensure all requests are handled in compliance with the Sunshine Law.

Section 321.200.1, RSMo, requires all board meeting minutes and other records be available for public inspection at the district firehouse. Section 610.023, RSMo, lists requirements for making records available to the public, including designating a custodian of records to receive these requests. Section 610.026, RSMo, allows the district to charge fees for providing access to and/or copies of public records and provides requirements related to the fees. Section 610.028, RSMo, requires a written policy regarding release of information under the Sunshine Law. To ensure compliance with state law, the district should document sufficient information in a log to determine if requests are adequately and timely completed. Necessary information includes, but is not limited to, the date of request, a brief description of the



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request, the date the request is completed or reason why the request cannot be completed, and any associated costs.

7.4 Email

The district does not send the Fire Chief (the custodian of records) copies of email messages that are considered to be a public record under state law. Section 610.025, RSMo, states that the custodian of records must be provided email messages sent between a majority of the public body's members. As a result, these communications are not available for public inspection and copying as required by the Sunshine Law.

Recommendations

The Board of Directors:

- 7.1 Prepare minutes for all closed meetings and ensure the specific reasons for closing a meeting are documented in open meeting minutes.
- 7.2 Ensure meeting minutes include sufficient information necessary to provide a complete and accurate record of significant matters discussed and actions taken.
- 7.3 Develop written policies regarding procedures to obtain access to, or copies of, public records and establish a request log.
- 7.4 Ensure email messages sent between a majority of the Board's members are sent to the Fire Chief and made available for public inspection and copying in accordance with state law.

Auditee's Response

- 7.1 *The Board recognized and addressed this deficiency prior to the audit findings, having hired a professional stenographer to attend and take minutes of regular meetings. Moving forward, the Board will ensure specific reasons for closing a meeting are documented in the open meeting minutes.*
- 7.2 *The Board agrees that the deficiencies uncovered by the audit revealed that prior Board decisions were not adequately reflected in the meeting minutes. This Board, no member of which served prior to April 2016, has included complete agendas for meetings and taken appropriate steps to ensure that minutes capture and appropriately describe the actions of the Board.*
- 7.3 *The Board agrees that a new public records policy is needed, and will be developed as part of the SOGs rewrite that is in progress.*
- 7.4 *The Board has taken steps to ensure emails related to district business are properly archived and that the custodian of records is*



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included on district correspondence. These policies will be examined and promulgated as part of the SOGs rewrite.

8. District Policies and Procedures

District policies and procedures need improvement.

8.1 Bylaws

The Board has not established written bylaws or other formal policies and procedures for the administration of the district. Instead, the Board President indicated the Board follows "Rules for Missouri Fire Protection Districts" provided by the University of Missouri Extension office.

Section 321.220(12), RSMo, provides that fire protection districts have the authority to adopt and amend bylaws necessary for ". . . carrying on of the business, objects and affairs of the board and of the district . . ." In addition, good business practice dictates the district adopt bylaws to govern board elections, meetings, and rules for transacting district operations and financial matters and to ensure compliance with the bylaws. Bylaws can be used as a management tool for establishing district policies and procedures.

8.2 Standard operating guidelines

The district's SOGs, which serve as a guide for operations within the district and are designed to assist employees in performing their job duties, do not include guidelines to address certain important issues, including the following.

- SOGs do not address employee performance evaluations. The district does not perform annual performance evaluations for any district employees, except the Fire Chief. Performance evaluations are necessary to adequately assess employee performance and provide documented feedback to employees. Performance evaluations also assist in personnel decisions and provide support for those decisions.
- The district does not have a travel policy to address meal and incidental expense per diems, mileage reimbursements, acceptable lodging rates, and submission of related supporting documentation. A travel policy should be adopted to ensure the district only pays for actual and reasonable travel expenses. The policy should outline items such as daily meal allowances and incidentals or per diem rates, mileage reimbursements, and acceptable lodging rates. In addition, the policy should outline the documentation required to be submitted for expenses.
- The district does not have a policy on the use of internet and email, or personal use of district provided portable electronic devices including laptops, tablets, and cell phones to ensure compliance with Internal Revenue Service (IRS) regulations for limited personal use of a district-provided device.



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Complete and up-to-date written policies and procedures are necessary to provide a basic understanding between all parties regarding rights and responsibilities, provide guidance should questions or disputes arise, and help ensure policies are fairly and consistently applied to all district employees.

8.3 Budgets

The Board did not prepare annual budgets for all district funds as required by state law. In addition, budget documents did not include all statutorily required information.

The district has three funds (General, Capital Improvement, and Debt Service). Our review of district budgets from 2011 to 2017 noted that the district had not prepared budgets for the Capital Improvement or Debt Service Funds for any of those years.

The budgets prepared for the General Fund did not include a budget summary or debt service information. In addition, the budgets only included a comparative statement of estimated receipts and disbursements for the prior year when state law requires a comparative statement of actual or estimated receipts and disbursements for the 2 preceding years.

Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and sets specific guidelines for the format. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of district operations. It also assists in setting tax levies and informing the public about district operations and current finances. In addition, Section 67.080, RSMo, provides that no expenditures of public monies should be made unless it is authorized in the budget.

Recommendations

The Board of Directors:

- 8.1 Adopt written bylaws.
- 8.2 Maintain complete, comprehensive, and up-to-date SOGs to help employees carry out district operations.
- 8.3 Prepare annual budgets for all funds that include all information required by state law.

Auditee's Response

- 8.1 *The district is evaluating the necessity of adopting bylaws through discussions with legal counsel and state organizations. While bylaws can provide guidance on governance issues for organizations, state law dictates the district's procedure on electing board members, district officers, and defining the powers of the Board.*



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8.2 *The process to follow these recommendations has been initiated by hiring a consultant to assist the district in a comprehensive revision of the district's SOGs. Apart from the audit findings, the Board has discovered the gaps in the SOGs regarding district operations—in too many areas there simply is no guidance on district policy. Working with this consultant, the district will enact and revise its SOGs so that they reflect the practices of the district, and provide guidance to the Board, the Fire Chief, and district staff.*

8.3 *Beginning with fiscal year 2019, the Board will review and pass a budget related to expenditures and revenues for all district funds and ensure all information required by state law is included.*

9. District Property and Vehicle Usage

Controls and procedures over district property and vehicle usage need improvement. District-owned capital assets, net of depreciation, including land, buildings, equipment, and other property were valued at \$4,280,411 at December 31, 2016.

9.1 Maintenance and repairs

District procedures for the maintenance and repair of vehicles and equipment are not adequate. An inspection of all district vehicles and equipment is performed on a daily basis and any maintenance and repair issues noted are documented on the Daily Truck Check Maintenance Appendix. Items are removed from the appendix when repaired or replaced. In addition, district personnel indicated items were also removed from the appendix at the request of the former Fire Chief if he determined the issue would not be repaired or replaced. However, the appendix does not document when and how identified issues were resolved.

Comprehensive maintenance records should be kept and periodically reviewed to ensure that preventive maintenance procedures are performed. Maintenance and repair records would also help the district in making budgetary decisions and in deciding when to dispose of a particular vehicle or item of equipment.

9.2 Vehicle usage

The district's employment contract with the former Fire Chief stated the district must provide the former Fire Chief with a vehicle and fuel to be used for district business and personal use. The contract did not include language that limited or further explained allowable/unallowable personal use and any associated record-keeping or reporting requirements. The former Fire Chief was not required to maintain a vehicle usage log or any other record of business and personal use of the district vehicle. In addition, the district did not report the value of the former Fire Chief's personal use of a district vehicle on W-2 forms as required by the IRS. Prior to October 2016, this vehicle was not marked as a public safety vehicle.



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In addition, the district's employment contract with the current Fire Chief also states the district must provide the Fire Chief with a vehicle and that it is provided for instances where the Fire Chief would be willing and able to respond directly to the incident as needed. The contract does not prohibit personal use of the vehicle. The current Fire Chief is not required to maintain a vehicle usage log or any other record of business and personal use of the vehicle. As a result, his personal use should be considered a taxable benefit and should be included on W-2 forms as required by the IRS. Prior to October 2016, this district vehicle was not appropriately marked.

As a general rule, district vehicles should be used for a public purpose, for the benefit of the district's citizens, and not for personal gain. If the district intends to allow the Fire Chief to use a district vehicle for anything other than official district purposes, the Board should follow IRS reporting guidelines.

IRS reporting guidelines indicate that use of a qualified nonpersonal use vehicle (including commuting) is required to be included in gross income as a working condition fringe benefit unless specific requirements for the type of vehicle are met (i.e., vehicle is clearly marked as a public safety vehicle, employee is always on call, personal use outside of the firefighter's jurisdiction is prohibited, and the employee is required to use the vehicle for commuting). Since the district vehicles were not appropriately marked prior to October 2016, and the district did not meet the other requirements, the personal use of the vehicle is required to be reported as a taxable fringe benefit. District officials should submit amended W-2 forms for the unreported compensation. The district may also be subject to penalties and/or fines for failure to report all taxable benefits.

9.3 Capital assets

The district has not developed procedures to identify capital asset purchases and dispositions throughout the year and records to account for district property are not adequate. Capital asset records are maintained by the district's accountant for depreciation purposes and includes the approximate values for financial statement valuation and for property and liability insurance purposes; however, these records lack some necessary information such as purchase date, vendor, model or serial number, and disposition information such as the date and method of disposal. In addition, assets are not tagged or otherwise identified as district property and an annual physical inventory is not performed.

Adequate capital asset records and procedures are necessary to provide controls over district property. Capital asset records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. Records should include a detailed description of the assets such as acquisition costs, descriptions, make and model number, and asset identification numbers; the physical location of the assets; and the date and method of disposition of assets. In addition, property controls tags should be



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affixed to all property items to help improve accountability and ensure assets are properly identified as belonging to the district. The district should conduct annual physical inventories and compare the results to the detailed property records.

Recommendations

The Board of Directors:

- 9.1 Establish adequate procedures to ensure vehicles and equipment receive preventative maintenance and repairs timely. At a minimum, require maintenance logs be kept for each district vehicle and equipment and that these logs be reviewed periodically.
- 9.2 Refer to IRS guidelines regarding use of employer-provided vehicles and adopt appropriate policies and requirements. In addition, the Board should also ensure all compensation is properly reported on W-2 forms, and amend W-2 forms for unreported compensation, as appropriate.
- 9.3 Ensure complete and detailed capital asset records are maintained on a perpetual basis, assets are properly tagged for identification, and annual physical inventories are performed and compared to detailed records.

Auditee's Response

- 9.1 *The Fire Chief, with the Board's approval, has deployed software for maintenance logging and review. Moreover, beginning in 2017, the Fire Chief (acting as interim Fire Chief at the time) increased attention to preventative maintenance and repairs.*
- 9.2 *The Board intends to discuss compliance with IRS guidelines with legal counsel and its accountant and amend W-2 forms as appropriate. In addition, the Board will take all appropriate action to make the district's vehicle usage policy consistent with federal law.*
- 9.3 *The Fire Chief, acting under direction of the Board, will undertake an inventory of capital assets after the drafting and approval of a SOG regarding the minimum value of assets to be tracked. This SOG will be developed as part of the SOGs rewrite that is in progress and will address maintaining capital asset records on a perpetual basis.*

10. Employment Contracts

The district entered into multi-year employment contracts without terms allowing the district to terminate the employee for reasons other than for cause.

The district entered into an employment contract with terms allowing the district to terminate the former Fire Chief for cause, but the contract did not address termination for other reasons. In addition, the contract automatically



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renewed each year so that following each extension, the agreement term remained 5 years. The district placed the former Fire Chief on administrative leave on August 21, 2017, until a separation of employment agreement could be negotiated. According to the agreement dated January 23, 2018, the former Fire Chief remained employed with the district until February 28, 2018. During this 6-month period, the district had no alternative other than to pay the former Fire Chief's salary and benefits totaling \$92,814.

The current Fire Chief's contract also does not address termination without cause and renews automatically each year so that following each extension, the agreement term remains 3 years.

The district should ensure employment contracts are in the best interest of the district and provide adequate protections to both the employer and employee.

Recommendation

The Board of Directors ensure employment contracts properly safeguard district interests.

Auditee's Response

The Board agrees that the sort of "auto-renewal" provision found in the former Fire Chief's contract operated to the detriment of the district. The same provision was found in the deputy chief's contract and, upon his elevation to the fire chief position, it remained in the contract, although it was shortened to 3 years. At the time of the current chief's appointment, it was necessary to provide stability and certainty to the district. The district is reviewing current contracts, and is evaluating options for amendment of the contract to adequately safeguard the district's interest and simultaneously provide for continuity of district management.

11. Electronic Data Security

The district does not have security controls in place to lock computers after a specified number of incorrect logon attempts. In addition, the district does not periodically test for recovery of data from backup files.

Log on attempt controls lock the capability to access a district computer after a specified number of consecutive invalid logon attempts and are necessary to prevent unauthorized individuals from continually attempting to logon to a computer by guessing passwords. In addition, periodic testing to ensure the backup process is adequate would provide reasonable assurance data could be recovered or restored if necessary. Without effective security controls, there is an increased risk of unauthorized access to computers and the unauthorized use, modification, or destruction of data.

Recommendation

The Board of Directors require each computer to have security controls in place to lock it after a specified number of incorrect logon attempts. In addition, ensure recovery of data from backup files is tested on a regular basis.



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Auditee's Response

The Fire Chief has worked with the district's information technology (IT) provider to place adequate "lock out" protections on the district's computers for failed logon attempts. The IT provider also backs up district data every 24 hours, and keeps all data and records indefinitely on a separate server. As part of the SOGs rewrite that is in progress, new computer use policies will be implemented to address remaining concerns.

Smithville Area Fire Protection District Organization and Statistical Information

The Smithville Area Fire Protection District was incorporated in 1989 and is organized pursuant to Chapter 321, RSMo. The district covers the City of Smithville and the surrounding area (112 square miles) and has 2 operating fire stations. The district employed 12 full-time employees (excluding the Fire Chief and Assistant Fire Chief) and 2 volunteer fire fighters at December 31, 2016.

The elected Board acts as the policy-making body for district operations. Pursuant to Section 321.120.5, RSMo, the Board of Directors was increased from 3 to 5 members in April 2018, based on approval by voters in August 2017. Board members serve 6-year terms without compensation. Current and former Board members and other key personnel serving the district are as follows:

Board of Directors, Current

| Name | Date of Election | Term Expires |
|-----------------------------|------------------|--------------|
| Debbie Childress, President | April 5, 2016 | April 2022 |
| Brian Laybourne | April 3, 2018 | April 2024 |
| Charlie Waters | April 3, 2018 | April 2024 |
| Bob Painter | April 3, 2018 | April 2022 |
| Duane Garmeson | April 3, 2018 | April 2020 |

Board of Directors, Former

| Name | Dates of Service |
|----------------------------|--------------------------------|
| Greg Atkins (1) | April 2012 - January 23, 2018 |
| Michael (Mick) Summers (2) | April 2014 - December 20, 2016 |
| Berry Parks | April 2010 - April 19, 2016 |

- (1) Resigned from the Board effective January 23, 2018. This seat remained vacant until April 24, 2018, when newly elected members took office.
- (2) Resigned from the Board effective December 20, 2016. Bob Painter was appointed in March 2017 by remaining Board members to fill the unexpired term. He was subsequently elected to the Board on April 3, 2018.

Fire Chief and Assistant Fire Chief

| Name | Date of Appointment |
|---------------------------|---------------------|
| Current: | |
| Dave Cline, Fire Chief | March 1, 2018 |
| Vacant, Deputy Fire Chief | N/A |

| Name | Dates of Service |
|-----------------------------------|--------------------------------------|
| Former: | |
| John Callahan, Fire Chief (1) | February 4, 2008 - February 28, 2018 |
| Dave Cline, Deputy Fire Chief (2) | January 27, 2003 - February 28, 2018 |

- (1) Placed on administrative leave August 21, 2017. According to the negotiated separation of employment agreement dated January 23, 2018, he was employed by the district until February 28, 2018.
- (2) Appointed Acting Fire Chief on March 28, 2017, and appointed Fire Chief effective March 1, 2018.



Smithville Area Fire Protection District
Organization and Statistical Information

Financial Activity and
Subpoenas

Appendix A is a summary of the district's financial activity for the year ended December 31, 2016 (obtained from the district's audited financial statements).

Appendixes B and C are copies of subpoenas served to the district and the former Fire Chief in October 2017 to obtain testimony and records requested by the State Auditor's Office.

SMITHVILLE AREA FIRE PROTECTION DISTRICT, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended December 31, 2016

| | General Fund | Capital Projects | Debt Service | Total |
|---|-----------------|---------------------|-----------------|--------------|
| REVENUE | | | | |
| Taxes | | | | |
| County Property Tax | \$ 782,763 | \$ - | \$ 515,756 | \$ 1,298,519 |
| Sales Tax | 536,231 | - | - | 536,231 |
| Interest on Accounts | 1,539 | 2,162 | 340 | 4,041 |
| Miscellaneous Income | 8,396 | - | - | 8,396 |
| Grants | 14,782 | - | - | 14,782 |
| Total Revenue | 1,343,711 | 2,162 | 516,096 | 1,861,969 |
| EXPENDITURES | | | | |
| Personnel Services | 641,281 | - | - | 641,281 |
| Insurance - Benefits | 84,026 | - | - | 84,026 |
| Employee Benefits - Retirement | 73,591 | - | - | 73,591 |
| Other Employee Benefits | 15,301 | - | - | 15,301 |
| Insurance - Property and Liability | 93,675 | - | - | 93,675 |
| Uniforms | 10,917 | - | - | 10,917 |
| Health and Safety | 1,502 | - | - | 1,502 |
| Office | 2,445 | - | - | 2,445 |
| Prevention and Investigation | 801 | - | - | 801 |
| Petroleum Products | 13,082 | - | - | 13,082 |
| Professional Services | 26,912 | 47,900 | - | 74,812 |
| Communications | 74,322 | - | - | 74,322 |
| Personnel Development | 13,917 | - | - | 13,917 |
| Public Utilities | 18,906 | - | - | 18,906 |
| Miscellaneous | 4,981 | - | - | 4,981 |
| Maintenance - Machinery and Equipment | 51,052 | - | - | 51,052 |
| Maintenance - Building and Grounds | 18,046 | - | - | 18,046 |
| Equipment | 14,815 | - | - | 14,815 |
| Construction - Station 3 | - | 1,820,961 | - | 1,820,961 |
| Total Expenditures | 1,159,572 | 1,868,861 | - | 3,028,433 |
| Excess (Deficiency) of Cash Receipts over Cash Expenditures | 184,139 | (1,866,699) | 516,096 | (1,166,464) |
| DEBT SERVICE PAYMENTS | | | | |
| Interest and Fees | - | - | 134,374 | 134,374 |
| Principal | - | - | 400,000 | 400,000 |
| Total Debt Service Disbursements | - | - | 534,374 | 534,374 |
| TRANSFERS | | | | |
| | - | 1,982 | (1,982) | - |
| Net Change in Fund Balance | 184,139 | (1,864,717) | (20,260) | (1,700,838) |
| Fund Balance, Beginning of Year | 1,055,093 | 2,603,731 | 218,159 | 3,876,983 |
| Fund Balance, End of Year | \$ 1,239,232 | \$ 739,014 | \$ 197,899 | \$ 2,176,145 |



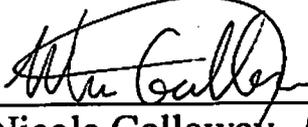
OFFICE OF MISSOURI STATE AUDITOR

SUBPOENA

To: Custodian of Records and Corporate Designee
Smithville Fire Protection District
341 Park Drive
Smithville, MO 64089

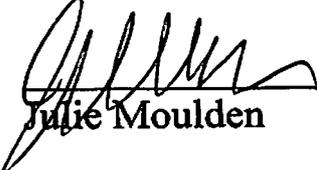
YOU ARE COMMANDED AND REQUIRED to appear personally before the State Auditor or her representative, Joel Anderson, Chief Litigation Counsel, at 1410 Genessee St, Room 151, Kansas City, MO 64102, at 1:00 p.m. on October 30, 2017, for purposes of providing testimony and producing for examination, copying, and interrogation the following records and documents listed on Exhibit A attached to this Subpoena.

ISSUED this 11th day of October, 2017, pursuant to Section 29.235.4(1), RSMo.



Nicole Galloway
Missouri State Auditor

I served the foregoing subpoena by Dave Cline on this 11 day of October 2017.



Julie Moulden

EXHIBIT A

You are to preserve for production and inspection, and then appear as instructed on the attached subpoena and produce for inspection and examination, the following items in your possession or under your control as previously requested by the State Auditor's Office (see Exhibit B):*

1. All documentation supporting the calculations used to determine employee bonuses given in 2011.
2. All pre-planning documentation for station #3, including documentation of the following:
 - a. Cost analysis (calculation) showing how the tax levy increase, which was requested but failed, was determined.
 - b. Supporting documentation for original estimated cost of station #3 (\$3 million bond levy).
3. Documents showing the evaluation of the bids or requests related to the proposals for architectural and engineering services for station #3

You must also bring sufficient witnesses to testify on the record regarding the following:

1. The existence of the above referenced documents and the search conducted to find the records.

* This request for records includes all materials that exist in paper ("hard copy") or electronic form (including but not limited to records and data maintained on computers, tablets, smart phones, external electronic storage drives, thumbnail drives, remote servers or back up tapes). All information requested in the items above are subject to inspection, review and copying by the state auditor. Section 29.235.4(1), RSMo.



NICOLE GALLOWAY, CPA
Missouri State Auditor

October 3, 2017

Debbie Childress, Board President
Dave Cline, Deputy Fire Chief
Smithville Area Fire Protection District
341 Park Drive
Smithville, MO 64089

John H. Callahan, Fire Chief
108 Platte River Road
Farley, MO 64028

Re: Missouri State Auditor's Office Request for Records

Dear Ms. Childress, Mr. Cline, and Mr. Callahan:

As you know, this office is currently auditing the Smithville Fire Protection District. The auditors from this office have requested but not received the following from the district:

1. Calculations used to determine employee bonuses given in 2011, 2012, 2013, 2014, and 2015.
2. Pre-planning documentation for station #3, including the following:
 - a. Cost analysis (calculation) showing how the tax levy increase, which was requested but failed, was determined.
 - b. Supporting documentation for original estimated cost of station #3 (\$3 million bond levy).
3. Proof of publication and bids or requests for qualifications and proposals for the following:
 - a. Architect for station #3
 - b. Engineering services for station #3

This information was specifically requested on July 20, July 26, and August 3. Audit Manager Heather Stiles again requested this information via email on September 26. As to #3 above, while information was provided related to the proof of publication, the remaining information was incomplete. No other information requested was provided.

Section 29.235.1, RSMo, requires this office to conduct its audits in accordance with standards established by the Comptroller General of the United States (commonly known as the "Yellow Book"). The Yellow Book requires that auditors obtain sufficient and appropriate evidence to support all of its findings. Furthermore, under Section 29.235, RSMo, the auditor is authorized to examine all books, accounts, records, reports, and vouchers of any entity subject to audit. Section 29.235, RSMo, further authorizes the State Auditor's office to issue subpoenas as needed to conduct an audit under Chapter 29.

The auditors have requested these documents so that they can complete the audit of the district. Any further delay will increase both the time it takes to complete this audit and the cost of performing the

audit. Please send this documentation by 5 p.m. on October 6, 2017, or we will initiate further action to ensure that we can complete the audit.

If you have any questions, you may contact me by email at Paul.Harper@auditor.mo.gov or by telephone at (573) 751-4213.

Sincerely,

A handwritten signature in black ink that reads "Paul Harper". The signature is written in a cursive style with a long horizontal line extending to the right.

Paul Harper
General Counsel



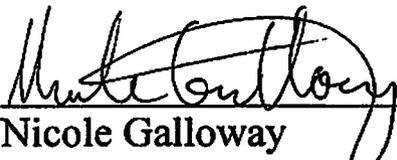
OFFICE OF MISSOURI STATE AUDITOR

SUBPOENA

To: John H. Callahan, Fire Chief
108 Platte River Road
Farley, MO 64028

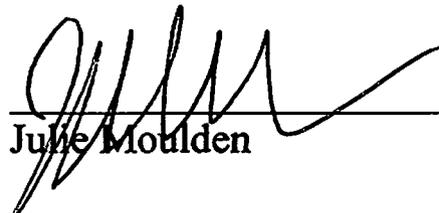
YOU ARE COMMANDED AND REQUIRED to appear personally before the State Auditor or her representative, Joel Anderson, Chief Litigation Counsel, at 1410 Genessee St, Room 151, Kansas City, MO 64102, at 10:00 a.m. on October 30, 2017, for purposes of providing testimony and producing for examination, copying, and interrogation the following records and documents listed on Exhibit A attached to this Subpoena.

ISSUED this 11th day of October, 2017, pursuant to Section 29.235.4(1), RSMo.



Nicole Galloway
Missouri State Auditor

I served the foregoing subpoena by John H. Callahan on this 12 day of October 2017.



Julie Moulden

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 - b. Supporting documentation for original estimated cost of station #3 (\$3 million bond levy).
3. Documents showing the evaluation of the bids or requests related to the proposals for architectural and engineering services for station #3.
4. Any electronic devices owned by the district but in your possession, including but not limited to any desktop computers, laptop computers, or other portable electronic storage devices, including but not limited to jump drives and other portable storage devices.

You must also bring sufficient witnesses to testify on the record regarding the following:

1. The existence of the above referenced documents and the search conducted to find the records.
2. Calculations used to determine employee bonuses given in 2011, 2012, 2013, 2014, and 2015.
3. Any passwords or other access to any electronic devices owned by the district.

* This request for records includes all materials that exist in paper ("hard copy") or electronic form (including but not limited to records and data maintained on computers, tablets, smart phones, external electronic storage drives, thumbnail drives, remote servers or back up tapes). All information requested in the items above are subject to inspection, review and copying by the state auditor. Section 29.235.4(1), RSMo.



NICOLE GALLOWAY, CPA
Missouri State Auditor

October 3, 2017

Debbie Childress, Board President
 Dave Cline, Deputy Fire Chief
 Smithville Area Fire Protection District
 341 Park Drive
 Smithville, MO 64089

John H. Callahan, Fire Chief
 108 Platte River Road
 Farley, MO 64028

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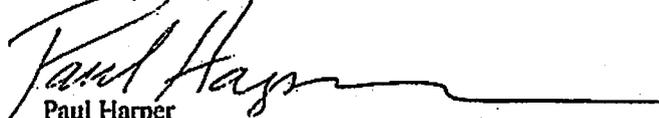
Section 29.235.1, RSMo, requires this office to conduct its audits in accordance with standards established by the Comptroller General of the United States (commonly known as the "Yellow Book"). The Yellow Book requires that auditors obtain sufficient and appropriate evidence to support all of its findings. Furthermore, under Section 29.235, RSMo, the auditor is authorized to examine all books, accounts, records, reports, and vouchers of any entity subject to audit. Section 29.235, RSMo, further authorizes the State Auditor's office to issue subpoenas as needed to conduct an audit under Chapter 29.

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Sincerely,

A handwritten signature in black ink that reads "Paul Harper". The signature is written in a cursive style and is followed by a long horizontal line that extends to the right.

Paul Harper
General Counsel