



CAMDEN POINT FIRE PROTECTION DISTRICT

PLATTE COUNTY, MISSOURI

YEAR ENDED DECEMBER 31, 1998

**From The Office Of State Auditor
Claire McCaskill**

Report No. 99-96
October 7, 1999

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

October 1999

Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the Camden Point Fire Protection District, Platte County, Missouri.

It appears the board has not always provided documents requested by citizens to those individuals in a timely manner. In one instance, documents requested in November 1997 were not provided until January 1998. In another instance, information requested in September 1998 was not provided until January 1999.

The board met periodically for work sessions for various purposes. It appears that the board believed these meetings were not subject to the provisions of Missouri's open meetings law, therefore, these sessions were not posted nor were minutes maintained. However, it appears these sessions generally included an initial review, discussion and coding of expenses incurred by the district prior to being sent to the accountant for payment. Such activities constitute matters which should be handled in public meetings.

In November 1998, the board enacted a formal policy regarding public access to district records. This policy provided that the person requesting such records would be responsible for the costs of producing and copying the records and that the custodian of records would be paid \$50 per hour for the time spent responding to such requests. The \$50 per hour charge was subsequently reduced to \$25 per hour. Considering the work involved in producing and copying records is typically clerical in nature, the \$25 per hour charge may still be excessive and have the effect of discouraging information requests.

The board has not ensured that board members are notified when their term expires or that the proper board member has run for reelection. As a result, in April 1997, one board member ran for reelection even though it was another board member's term which was due to expire. In addition, the board has not ensured the public is given timely notice of upcoming board elections or allowed the public the required amount of time in filing for office. For both the April 1997 and April 1995 elections, the board failed to publish timely notices of the open position and upcoming election as defined by state law. Possibly because of the manner in which the election notices were handled, the respective board members running for reelection ran without opposition in both of these elections.

YELLOW SHEET

The board entered into lease-purchase agreements to finance the construction or purchase of the fire station building and district vehicles. These lease-purchase agreements include provisions that impose a substantial fee for termination of the agreements, effectively eliminating the board's ability to terminate the agreements. If the board had terminated the leases at the end of 1998, the termination fees on the building and vehicle leases would have totaled \$137,147. In comparison, the principal balance on the two leases totaled \$175,671, at that time. Considering the extent of the termination fees, it is apparent the termination provisions would never be exercised. It appears the board has effectively entered into long-term debt without a vote of the district's taxpayers, which is required by the Missouri Constitution.

The district's sales tax exemption was used to make purchases totaling about \$1,100, by or on behalf of private entities or individuals. While the district was reimbursed for the cost of the items, those entities/individuals avoided paying sales tax on these purchases. Although district officials indicated these purchases were not made to avoid paying sales taxes, the sales tax exemption should not be used to benefit private entities or individuals.

The board approved expenditures in excess of the approved budget for 1997 and 1998, and the budgets did not include all required and necessary information. In addition, the district has not always filed an annual financial report with the State Auditor's office as required.

It appears the board failed to adequately follow up on the refund of a \$500 deposit made on a fire truck being considered for purchase and, as a result, did not receive the refund in a timely manner. Travel expenditures made from a cash advance for district representatives sent to inspect the truck were not adequately documented and the remaining funds were not accounted for fully.

The board has contracted with a private accountant to handle its bookkeeping duties, but the district performs no independent review or oversight related to the records or duties of this accountant. The board did not document its approval of all expenditures made by the district, and the check register of the district was not maintained accurately. The board did not retain all voided checks, and no financial report was available to the board at various board meetings.

CAMDEN POINT FIRE PROTECTION DISTRICT
PLATTE COUNTY, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Directors
Camden Point Fire Protection District
Platte County, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Camden Point Fire Protection District, Platte County, Missouri. The fire protection district had engaged Karlin and Unger, Certified Public Accountants, (CPA firm), to perform a financial audit of the district for the year ended December 31, 1998. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. Our audit of the fire protection district included, but was not limited to, the year ended December 31, 1998. The objectives of this audit were to:

1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, policies, and various fire protection district financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the fire protection district and was not subjected to the auditing procedures applied in the audit of the fire protection district.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the Camden Point Fire Protection District, Platte County, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive style with a large initial "C".

Claire McCaskill
State Auditor

May 4, 1999 (fieldwork completion date)

HISTORY AND ORGANIZATION

CAMDEN POINT FIRE PROTECTION DISTRICT
 PLATTE COUNTY, MISSOURI
 HISTORY AND ORGANIZATION

The Camden Point Fire Protection District, Platte County, Missouri, is a fire protection district established pursuant to Chapter 321, RSMo. The district was organized following voter approval in April 1989. It had previously existed as an unincorporated volunteer fire department since 1962. It covers approximately 18 square miles in Platte County, Missouri and has one fire station.

The district government consists of a three-member Board of Directors who serve as the president, secretary/treasurer, and director for the district. The directors are elected for six-year terms. The board and all district personnel serve without compensation. The Board of Directors and Fire Chief at December 31, 1998, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Bond Amount</u>
Fred McDaniel, Chairman (1)	April 1999	\$ 10,000
Steve Folck, Secretary/Treasurer	April 2003	10,000
Robert Wright, Director	April 2001	10,000

Other Principal Official

Walt Stubbs, Fire Chief	None
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- (1) Kurt Dutcher was elected to the board in April 1999. Robert Wright was appointed Chairman in April 1999.

The district's assessed valuation and tax rate information for 1998 are as follows:

ASSESSED VALUATION

Real estate	\$	8,240,220
Personal property		<u>2,995,823</u>
Total	\$	<u>11,236,043</u>

TAX RATE PER \$100 ASSESSED VALUATION

General	\$ <u>.55</u>
Total	\$ <u>.55</u>

At December 31, 1998, the district had 17 volunteer firefighters.

MANAGEMENT ADVISORY REPORT SECTION

CAMDEN POINT FIRE PROTECTION DISTRICT
PLATTE COUNTY, MISSOURI
SUMMARY OF FINDINGS

1. Board Meetings and Records (pages 8-11)

Some activity conducted by the board in work sessions appears to be activity which is limited to open meetings. A tentative agenda of matters to be discussed in the regular board meetings is not posted. Minutes were not generally maintained for closed meetings, the purpose for the closed session or the related vote was not always disclosed, and a topic was discussed in a closed meeting which did not appear to be for a purpose allowed by law. The board has not always provided documents requested in a timely manner and the board's established charge for document research may not be reasonable.

2. District Elections (pages 11-12)

In April 1997, one board member ran for reelection although another board member's term had actually expired. In addition, the board has not provided the public with timely notice of pending elections or allowed the proper amount of time for filing.

3. Expenditures (pages 12-15)

Original invoices were not retained to support some expenditures and some invoices/bills were not paid in a timely manner. District monies were expended for items which were not necessary to operate the district. Charges incurred for personal telephone calls made from district telephones were paid by the district and not reimbursed. The district's sales tax exemption was used to purchase items for private entities and individuals, thereby avoiding sales tax.

4. Purchase of Fire Truck (pages 15-16)

The board failed to follow up on the refund of a \$500 deposit made on a fire truck being considered for purchase and, as a result, did not receive the refund in a timely manner. Travel expenditures made from a cash advance were not adequately documented and the remaining funds were not accounted for fully.

5. Lease Purchase Agreements (page 17)

The board entered into lease purchase agreements to finance the construction or purchase of the fire station building and district vehicles. These lease purchase agreements include provisions that impose a substantial fee for termination of the agreements, effectively eliminating the agreements' annual renewal option.

6. Budgetary Practices and Financial Reporting (pages 18-19)

The board approved expenditures in excess of the approved budget for the years ended December 31, 1998 and 1997, and the budgets did not include all required and necessary information. In addition, the district has not always filed an annual financial report with the State Auditor's office as required.

7. Accounting Controls and Procedures (pages 19-21)

The board has contracted with a private accountant to handle its bookkeeping duties, but the district performs no independent review or oversight related to the records or duties of this accountant. The board did not document its approval of all expenditures made by the district, and the check register of the district was not maintained accurately. The board did not retain all voided checks, and no financial report was available to the board at various board meetings.

CAMDEN POINT FIRE PROTECTION DISTRICT
PLATTE COUNTY, MISSOURI
MANAGEMENT ADVISORY REPORT

1.

Board Meetings and Records

- A. During the audit period, it appears the board met periodically for work sessions for various purposes. It appears that the board believed these meetings were not subject to the provisions of Chapter 610, RSMo, the open meetings law. As a result, these sessions were not posted nor were minutes maintained.

According to board members, these sessions generally included an initial review and discussion of expenses incurred by the district and a determination of how expenditures should be coded prior to being sent to their accountant for payment. It appears that such activities constitute matters discussed or actions taken by the board which should be conducted in public meetings.

Section 610.010, RSMo Cum. Supp. 1998, indicates that any meeting of a public governmental body at which any public business is discussed, decided, or public policy formulated is subject to the provisions of the open meetings law. While informal gatherings of a governmental body for ministerial or social purposes do not constitute public meetings, it appears the activity conducted in the work sessions as discussed above should be handled in public meetings.

Assuming these work sessions constitute public meetings, the requirements of Chapter 610, RSMo, apply, including the requirement to post the meetings and the preparation of minutes documenting any actions taken or decisions made at the meetings. In addition, considering the limited activity and operations of the district, the need for any work sessions should be minimal.

- B. The board holds regular meetings on the fourth Monday of each month. Notice of the regular board meetings is continuously posted at the fire station; however a tentative agenda indicating what is to be discussed at the monthly board meeting is not posted as required. Section 610.020, RSMo Cum. Supp. 1998, requires a tentative agenda to be included in the notice posted for an upcoming meeting.
- C. The board conducted business in closed meetings on various occasions. Section 610.021, RSMo Cum. Supp. 1998, allows the board to discuss certain subjects in closed meetings, including litigation, real estate transactions, and personnel matters. During our review of this area, the following concerns were noted:

- 1) Minutes were not generally maintained to document matters discussed during the closed meetings. In the absence of closed meeting minutes, there is no evidence the closed discussions or business related to the specific reason(s) announced for closing the meeting. In addition, although minutes for closed meetings are not specifically required by law, minutes constitute the record of the proceedings of the board. Failure to maintain such minutes results in an inadequate record of district transactions, proceedings, and decisions.
- 2) When the board closed its meetings, the minutes did not always indicate the reason(s) for closing the meeting or the related vote for closing the meeting. Section 610.022, RSMo Cum. Supp. 1998, requires that before any meeting may be closed, the question of holding the closed meeting shall be voted on at an open session. The vote and the specific reason listed in Chapter 610, RSMo, for holding the closed meeting should be entered into the regular meeting minutes.
- 3) In one instance a topic discussed in a closed meeting did not appear to meet the criteria outlined in Section 610.021, RSMo Cum. Supp. 1998. The board discussed and approved a contract for dispatching services with the Platte County Sheriff in a closed session in September 1998. The board should restrict the discussion in closed sessions to the specific topics listed in Chapter 610, RSMo.

D. It appears the board has not always provided documents requested by citizens to those individuals in a timely manner. We noted one instance where an individual requested documents in writing on November 25, 1997; however, some of this information was not provided until January 1998. In another instance, on September 28, 1998, this same individual requested additional information from the district but it was not provided until January 1999.

Section 610.023.3, RSMo Cum. Supp. 1998, states, "Each request for access to a public record shall be acted upon as soon as possible, but in no event later than the end of the third business day following the date the request is received...The period for document production may exceed three days for reasonable cause."

Board members indicated that there were various reasons why these documents had not been released, including some confusion regarding the items requested, the fact that some of the documents were kept off-site, and (in the case of the latter request) that the board had not developed a formal policy regarding public access to district records. However, the reasons given by the board do not appear to adequately explain or justify the delay in producing these documents.

E. On November 23, 1998, the board enacted a formal policy regarding public access to district records. This policy provided that the person requesting such records would be responsible for the costs of producing and copying the records and that the custodian of

records would be paid \$50 per hour for the time spent responding to such requests. The \$50 per hour charge was subsequently reduced to \$25 per hour. Considering the work involved in producing and copying records is typically clerical in nature, the \$25 per hour charge may still be excessive and have the effect of discouraging information requests.

Section 610.026, RSMo Cum. Supp. 1998, allows the board to prescribe reasonable fees for providing access to or furnishing copies of public records, not to exceed the actual cost of document search and duplication. The board should reevaluate the current hourly fee and ensure that fee and any others are reasonable, do not exceed actual costs, and are consistent with the spirit and intent of the applicable statute.

WE RECOMMEND the Board of Directors:

- A. Ensure activity required to be conducted in open meetings is handled in accordance with the provisions of Chapter 610, RSMo. This would include board's reviews, discussion, and approval of expenses incurred by the district. In addition, the board should review the need for work sessions considering the limited operations of the district.
- B. Ensure the notices posted advising the public of upcoming meetings include tentative agendas as required by state law.
- C.1) Ensure that minutes are maintained for closed meetings.
 - 2) Ensure that the regular minutes document the vote to go into closed session and state the reason(s) for doing so as required by state law.
 - 3) Ensure any matters discussed in closed meetings are limited only to those subjects specifically allowed by state law.
- D. Ensure that documents requested by citizens are provided to those individuals in a timely manner as required.
- E. Reevaluate the hourly fee related to document requests and ensure any fees charged are reasonable, do not exceed actual costs, and are consistent with the spirit and intent of the applicable statutes.

AUDITEE'S RESPONSE

- A. *The Board of Directors concurs and indicated it has taken action to address this situation.*
- B, C.1.
- & C.2. *The Board of Directors concurs and indicated these recommendations have already been implemented.*

C.3. *The Board of Directors indicated it would ensure that only appropriate matters are discussed in closed session; however, those members who were on the board at the time believe that the instance cited in this finding met the legal criteria for it to be discussed in closed session.*

D&E. *The Board of Directors concurs.*

2. District Elections

During a review of district elections and the related procedures, the following concerns were noted:

A. The board has not ensured that board members are notified when their terms expire or that the proper board member has run for reelection. As a result, in April 1997, Board Member Folck ran for reelection even though it was Board Member McDaniel's term which was due to expire. Board Member Folck's term was actually due to expire in April 1999. This error was brought to the attention of the board in August 1998, and subsequently Board Member McDaniel was reappointed to the board until the April 1999 election.

To ensure the integrity of the election process, procedures should be established to ensure that the board members are advised when their terms are due to expire and that the proper board member runs for reelection, if applicable.

B. The board has not ensured the public is given timely notice of upcoming board elections or allowed the public the required amount of time in filing for office. Section 115.127.5, RSMo 1994, provided that the political subdivision or special district calling an election was required to notify the general public by a newspaper publication of the upcoming election before the thirteenth Tuesday prior to any election of the office(s) to be filled. In addition, that statute provided that candidates for office could file for office from the thirteenth Tuesday prior to the election to the ninth Tuesday prior to the election.

For both the April 1997 and April 1995 elections, the board failed to publish timely notices of the open position and upcoming election as defined by Section 115.127.5, RSMo 1994. The notices were published 2 and 16 days later than the statutory deadline for the 1997 and 1995 elections, respectively. In addition, although that statute provided that potential candidates were allowed four weeks to file for office, the notices published earlier closing dates and allowed only 6 days and 13 days to file for the 1997 and 1995 elections, respectively. Possibly because of the manner in which the election notices were handled, the respective board members running for reelection ran without opposition in both of these elections.

It should be noted that Section 115.127.5, RSMo, was revised effective August 1997, and the district is now required to give published notice of an upcoming election before the fifteenth Tuesday prior to the election and that candidates are to be allowed to file for the office from the fifteenth Tuesday to the eleventh Tuesday prior to the election. It appears the district made a more concerted effort to follow the provisions of the law prior to the April 1999 election. Although the notice was published two days later than the statutory deadline, the publication indicated a four week period for filing as required.

WE RECOMMEND the Board of Directors:

- A. Ensure board members are notified when their terms are about to expire and that the proper board member runs for reelection, if applicable.
- B. Ensure that notice of upcoming board elections is published in a timely manner and candidates are given adequate time to file for office in accordance with the applicable statute.

AUDITEE'S RESPONSE

A&B. The Board of Directors concurs; however, the board indicated this situation occurred partly because of a change in the county's classification which resulted in the board becoming responsible for election-related matters which had previously been handled by the county.

3. Expenditures

- A. Original invoices were not retained to support some disbursements. Examples of instances where invoices were not retained included charge tickets for fuel and purchases made from Sam's Club. In addition, we noted several instances where expenses incurred by board members on behalf of the district were supported only by an expense reimbursement form, with no supporting documentation attached. For example, a computer purchased for \$2,464 was supported only by an expense reimbursement form.

To ensure all purchases made from district funds are appropriate expenditures and are adequately documented, original invoices should be maintained to support all disbursements.

- B. Several instances were noted where invoices were not paid in a timely manner. For example, we noted that in October 1997, a bill from Sam's Club was not paid by the applicable deadline. As a result, a \$10 late payment fee was assessed. Procedures should be adopted by the district to ensure the timely payment of invoices/bills.

- C. The district spent \$909, \$374, and \$779 during the years ended December 31, 1998, 1997 and 1996, respectively, on annual firefighter banquets, children's Christmas gifts, and flowers for the funerals of former firefighters and board members' families.

These disbursements do not appear to be necessary or prudent uses of public funds. Expenditures such as these could be funded through a firefighters' contribution fund or association. The district's residents have placed a fiduciary trust in their public officials to spend tax revenues and fees in a necessary and prudent manner.

- D. The district spent approximately \$732 and \$924 during the years ended December 31, 1997 and 1996, respectively, for charges related to the district cellular telephone. According to the board, this cellular telephone was used primarily by Board Member Wright during this period. During our review of the cellular telephone bills, we noted personal calls totaling \$89 and \$82 during 1997 and 1996, respectively, which were paid for by the district. When we discussed this matter with Board Member Wright, he indicated that he had used the cellular phone to make personal calls while traveling on district business; however, he indicated that he had offered to repay the district for these calls. According to him, the board did not require him to reimburse the district for the cost of these calls. In addition, besides the personal calls made from the cellular phone, we also noted similar personal calls of a lesser amount made from the telephone at the fire station.

The payment of telephone charges related to personal calls made by district officials/personnel does not appear to be a necessary or prudent use of district funds. The board should ensure any charges related to personal calls made on district telephones are repaid by the applicable individuals.

The cellular phone was installed in one of the district's vehicles in 1998, and we did not note any similar problems in that year.

- E. We noted instances where the district's sales tax exemption was used to make purchases by or on behalf of private entities or individuals. Although the district was subsequently reimbursed for the cost of those items which were initially paid for by the district, those entities/individuals effectively avoided paying sales tax on these purchases. The instances noted include the following:

- 1) In December 1996, Board Member McDaniel purchased a computer and related equipment for the district office on a personal credit card. Included with this purchase were also items he purchased for his personal use costing \$549. The entire purchase was made using the district's tax exemption.
- 2) In August 1996, supplies costing \$46 were purchased for a political organization using the district's charge account.

- 3) District officials indicated that they encourage the firefighters to buy personal items from district suppliers to get discounts given to the district. In June 1997, we noted a firefighter ordered tires costing \$544 from a district supplier which were initially paid for by the district.

Even though district officials indicated these purchases were not made to avoid paying sales taxes, a sales tax exemption granted to a political subdivision should not be used to benefit private entities or individuals. Doing so is a violation of the sales tax exemption letter.

WE RECOMMEND the Board of Directors:

- A. Ensure all disbursements are supported by paid receipts and/or vendor-provided invoices and other supporting documentation.
- B. Develop procedures to ensure that all invoices/bills are paid in a timely manner.
- C. Limit expenditures to only those necessary to properly operate the district.
- D. Ensure the costs of any personal calls made on district telephones are reimbursed by the applicable individuals.
- E. Ensure the sales tax exemption of the district is not used for the benefit of private entities or individuals.

AUDITEE'S RESPONSE

- A&B. The Board of Directors concurs and has taken steps to implement these recommendations.*
- C. The Board of Directors will take this recommendation under consideration.*
- D. The Board of Directors will review this situation and establish a policy related to this area.*

Board Chairman Wright provided the following response:

The audit draws attention to personal calls I made using the district's cellular and office telephones. Over two years, this amounted to \$171, or \$7.12 per month, on the cellular phone. Calls on the district's office phone involved even less money. There are several points I would like to make about this:

- 1) As is indicated in the audit report, I offered to compensate the district for those calls. That offer was refused by the Board of Directors. The reason for the board's refusal requires some explanation. During the period of time in question, I was volunteering*

enormous amounts of time toward efforts to upgrade the district's fire apparatus and resolve some complex insurance issues (one of which involved a chemical spill on I-29 to which the district responded). I was, in essence, working full time for the district as a volunteer.

Much of this work required local and out-of-district travel. While traveling, I would occasionally check-in with my family. I was also receiving some free legal advice on some of the insurance issues from my daughter-in-law who is an attorney. As is known by the board, I was reimbursed for far less than half my out-of-pocket costs for this travel. So when I offered to compensate the board for the personal use of the cellular phone, this offer was refused as a small token of appreciation for the time and travel expenses I was volunteering to the district.

In retrospect, I should have detailed the travel costs, deducted the small amount of the personal use of the cellular phone, and shown the balance as a donation to the district. But the point here is simple: because I was saving the district literally thousands of dollars, the board refused to accept my payment for the cellular phone expenses because of its appreciation for this work.

- 2) *There was an implication in the audit report that all the personal calls on the district's office phone were mine. That is far from true. During the time in question, the district's policy was that all volunteers working for the district could use the office phone for personal calls while they were donating their time and efforts at the fire station. As the audit clearly indicates, there has never been abuse of this privilege by me or any of the other district volunteers. Again, while this may not have been the technically correct approach, it only seems to be the right thing to do given the vast number of hours and out-of-pocket dollars these volunteers have donated to the district.*

E. *The Board of Directors concurs.*

Board Chairman Wright provided the following response:

The audit makes some reference to a \$46 purchase made for a political organization using the district's tax exempt status at a local discount store. This was an inadvertent mistake that I made while working for the Platte County Democratic Party. I brought this mistake to the attention of the district's auditing firm and financial officer to make sure all appropriate corrective steps were taken. Obviously this mistake did not cost the district one cent. Just for the record, I wanted to make it clear that actions were taken to correct this mistake beginning literally the day after the mistake was made and long before the state audit or even discussions of a state audit.

4.

Purchase of Fire Truck

During 1996, the board decided to purchase a used fire truck to replace an aged truck that no longer met the department's needs. While looking through publications, board officials located a truck in Louisiana which interested them. As a result, the board decided to send one board member and two other district personnel to inspect this truck. The following concerns were noted during our review of this situation:

- A. Prior to these three people leaving for Louisiana, the board contacted the company selling the truck to express its interest. This company indicated that it could not guarantee the fire truck would be there when the district's representatives arrived unless a deposit was provided. As a result, the board sent the company a \$500 deposit on the truck. Once the district's representatives inspected the truck, the district decided not to buy it because it was flood damaged.

Board officials indicated they attempted to secure a refund of this deposit; however, they were unsuccessful in doing so. During our review, we contacted the applicable company and were told that a \$500 refund check had been issued to the district in January 1997, but the check had never cleared. The company indicated the refund check would be reissued if it received a written request from the district. After we brought this matter to the attention of the district, such a request was submitted and the \$500 refund was received in May 1999.

It appears the board did not do an adequate job of following up on this refund. Had it done so, the refund would have been received in a much more timely manner.

- B. A \$1,500 cash advance was provided to the district's representatives to pay for the expenses relating to the trip to Louisiana. Upon returning from the trip, receipts totaling \$543 were presented; however, \$127 in additional costs claimed were supported only by handwritten notes. In addition, \$740 was returned and deposited into the district's account, leaving \$90 unaccounted for.

All cash advances should have documentation to support the validity and reasonableness of travel costs incurred and any unspent monies should be promptly returned to the district.

WE RECOMMEND the Board of Directors:

- A. Ensure any monies due the district are aggressively pursued in the future.
- B. Ensure the expenses related to any travel advances are fully and adequately accounted for and any remaining funds are returned to the district.

AUDITEE'S RESPONSE

- A. *The Board of Directors concurs with the recommendation; however, those members who were on the board at the time believe adequate efforts were made to recover the deposit. Such efforts will be documented better in the future.*

- B. *The Board of Directors concurs.*

5. Lease Purchase Agreements

In March 1990, the board entered into a lease-purchase agreement for the fire station building. The agreement essentially served to provide \$55,000 in financing to construct the building. The agreement provided for annual lease terms, renewable for up to a maximum of twenty years. Similarly, in March 1997, the board entered into a lease-purchase agreement for three vehicles, including a newly acquired fire truck. This agreement provided \$158,502 in financing, with annual lease terms renewable for up to a maximum period of ten years.

While these lease purchase agreements contain provisions allowing the board to cancel the respective leases annually, each of the agreements requires the district to pay a significant termination fee if the district terminates the lease prior to the purchase of the property. If the board had terminated the leases at December 31, 1998, the termination fees on the building and vehicle leases would have been \$38,350 and \$98,797, respectively. In comparison, the principal balance on the two leases totaled \$175,671, at that date. Considering the extent of the termination fees, it is apparent the termination provisions would not ever be exercised. It appears the board has effectively entered into long-term debt without a vote of the district's taxpayers.

Article VI, Section 26(a) of the Missouri Constitution provides that no political subdivision of the state shall become indebted in an amount exceeding in any year the income and revenue provided for such a year plus any unencumbered balances from previous years. Article VI, Section 26(b) of the Missouri Constitution allows political subdivisions to incur debt by bond issue, but only after approval of two-thirds of the qualified voters of that political subdivision.

It is not uncommon for political subdivisions in the state to acquire buildings and equipment through lease purchase arrangements. However, the termination fee provisions of these two agreements are not common provisions in agreements of this nature and appear to effectively eliminate the district's ability to terminate the agreements.

WE RECOMMEND the Board of Directors consider the constitutional debt restrictions when entering into any future lease purchase agreements. Any such agreement should be structured to provide a annual termination clause that is not effectively voided by another provision(s) of the agreement.

AUDITEE'S RESPONSE

The Board of Directors concurs.

6. Budgetary Practices And Financial Reporting

- A. It appears that the board has not periodically compared actual expenditures to amounts budgeted. As a result, during the years ended December 31, 1998 and 1997, the board approved expenditures of \$8,412 and \$3,256, respectively, in excess of budgeted amounts. The board did not amend the district's budgets for these excess expenditures.

Section 67.040, RSMo 1994, requires the board to keep expenditures within the budgetary limits unless the board adopts a resolution setting forth the facts and reasons for the excess expenditures. In addition, for the Board of Directors to have an accurate assessment of the district's financial activity, and to allow for timely adjustment to budgets or anticipated activities, the board should periodically review the actual revenues and expenditures and compare them with budgeted amounts.

A similar condition was reported by the fire protection district's independent auditors.

- B. The budgets approved by the board do not include all required and necessary information as follows:
- 1) The district budgets do not include a budget message, the beginning cash balance or the projected ending cash balance for district funds.
 - 2) The budgets do not include a comparative statement of actual or estimated receipts and disbursements for the two previous years. Amounts for the two previous years provide comparative information to help evaluate the reasonableness of the budget estimates for the upcoming year.

Section 67.010, RSMo 1994, requires each political subdivision of the state to prepare an annual budget with specific information. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A complete budget should include appropriate revenue and expenditures estimations by classification, and include the beginning available resources and reasonable estimates of the ending available resources of all funds. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding years.

- C. Section 105.145, RSMo 1994, requires the district to file a financial report with the State Auditor's office annually. The district did not file an annual financial report with the State Auditor's office for the year ended December 31, 1996. The financial report is to be filed within four months after the end of the district's fiscal year (the requirement is six months

after the end of the fiscal year if an audit report prepared by a certified public accountant (CPA) is filed).

The district should ensure annual financial reports are filed with the State Auditor's office in accordance with Section 105.145, RSMo 1994.

WE RECOMMEND the Board of Directors:

- A. Periodically compare actual revenues and expenditures with budgeted amounts and ensure actual expenditures are kept within budgetary limits. If it appears expenditures are going to exceed budgeted amounts, a budget revision should be properly adopted by resolution.
- B. Ensure the annual budgets contain all required and necessary information, including a budget message, the beginning and projected ending cash balances, and a comparative statement of actual receipts and disbursements for the two previous years.
- C. Ensure annual financial reports are filed with the State Auditor's office as required and that such reports are filed within four months after the end of the district's fiscal year (or six months after the end of the fiscal year if a CPA audit report is filed).

AUDITEE'S RESPONSE

A-C. *The Board of Directors concurs.*

7.

Accounting Controls and Procedures

During our review of the board's accounting procedures the following concerns were noted:

- A. The fire protection district has not hired an employee to handle its accounting records, but instead has contracted with a private accountant for those services. This accountant's duties include recording and depositing receipts, preparing checks, recording disbursements, and reconciling the bank accounts. The district performs no independent review or oversight related to the records or duties of this accountant. In addition, prior to April 1999, this accountant served as the only signatory on all district checks, with no board co-signature required. This weakness was reported to the board by its independent auditor in March 1999, and subsequently the board began signing all checks and making all deposits.

To safeguard against possible loss or misuse of funds, the Board of Directors should consider performing an independent review of the bank statements, bank reconciliations, and other accounting records maintained by the private accountant on a periodic basis.

In addition, the board should continue to ensure all checks are signed by a designated member(s) of the board.

- B. Although there was reference in the board minutes to a few specific invoices being approved for payment, the board did not adequately document its approval of all expenditures made by the district. Invoices for bills were retained in the files, but these invoices are not signed or initialed by the board members, and a supplementary listing of all disbursements approved for payment by the board was not prepared to accompany the minutes. In addition, we noted one instance where an expenditure was approved after the disbursement had been made.

To adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the board to denote its approval, and retained with the official minutes. In addition, all district disbursements should be approved before they are incurred.

This condition was similarly noted by the fire protection district's independent auditors.

- C. Various problems were noted regarding the issuance of district checks and the check register maintained by the private accountant as follows:

- 1) We noted that a number of check numbers were skipped. While we were able to account for some of these check numbers, we were unable to do so for others.
- 2) Some check numbers were recorded in the check register more than once.
- 3) Checks were not always recorded in the check register in numerical order.
- 4) The check register did not always accurately identify the purpose of the payment.
- 5) Information included on the check register did not always agree to the checks issued.

To adequately account for all disbursements, the board should ensure the check register is accurately maintained. Check numbers should be recorded only once, recorded in order, and their numerical sequence should be accounted for properly. In addition, to properly account for the expenditure of district monies, the check register should accurately identify the purpose of each payment, and information included in the check register should be agreed to checks written.

- D. The board does not retain all voided checks. To ensure all checks are properly accounted for, all voided checks should be properly defaced and retained.

- E. According to the board meeting minutes, a financial report was unavailable at several board meetings. A financial report should be available to the board at all meetings to ensure that board members have current information available when making decisions that impact the district's financial condition.

This condition was similarly reported by the fire protection district's independent auditors.

WE RECOMMEND the Board of Directors:

- A. Consider performing a periodic independent review of the bank statements, bank reconciliations, and other records maintained by the private accountant. In addition, the board should continue to ensure that all checks are signed by a designated member(s) of the board.
- B. Ensure the approval of all disbursements is adequately documented by including a listing of all approved disbursements in the board minutes and ensure that all expenditures are approved by the board before they are paid.
- C. Ensure the check register of the district is adequately maintained. Check numbers should be accurately posted and the numerical sequence of check numbers should be accounted for properly. In addition, the check register should accurately identify the purpose of each expenditure and agree with the checks written.
- D. Ensure all voided checks are mutilated and retained.
- E. Ensure that a current financial report is available at all board meetings.

AUDITEE'S RESPONSE

A&D. The Board of Directors concurs.

B&E. The Board of Directors concurs and indicated these recommendations have already been implemented.

C. The Board of Directors indicated it would discuss this recommendation with its accountant.

This report is intended for the information of the fire protection district's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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