



Claire McCaskill

Missouri State Auditor

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December 2006

Greene County  
Fire Protection Districts

Years Ended December 31, 2005,  
2004 and 2003



Office Of  
Missouri State Auditor  
Claire McCaskill

December 2006

**IMPORTANT:** This review of audits of fire protection districts in Greene County has been completed. This review covered reports for the year(s) ended December 31, 2005, 2004, and 2003 that were required to be submitted to the State Auditor's office within six months after the year end.

State law requires Greene County fire protection districts with revenues in excess of \$50,000 annually to cause an audit to be performed on a biennial basis. For those districts with annual revenues of less than \$50,000, the State Auditor may exempt the district from the audit requirement if the appropriate reports are filed.

For those districts for which an audit is required, the district must file a copy of the completed audit report and management letter with the State Auditor within six months after the close of the fiscal year.

Six of the twelve fire protection districts have failed to comply with the statutory deadline. The Ash Grove and Bois D'Arc Fire Protection Districts have not submitted an audit report to the State Auditor's Office since the year(s) ended December 31, 2003. Four other districts submitted audit reports after the statutory deadline.

The State Auditor's Office accepted all audit reports that were received for the year(s) ended December 31, 2005, 2004, and 2003. However, instances of non-compliance including the lack of district responses to recommendations, the lack of follow-up to previous recommendations, and the lack of required report schedules were noted.

This report includes information about the districts' revenues, expenditures, and balances, and summarizes comments made by the various districts' independent auditors including recommendations for improving accountability and management of finances.

**All reports are available on our website: [www.auditor.mo.gov](http://www.auditor.mo.gov)**

YELLOW SHEET

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION  
DISTRICTS IN GREENE COUNTY

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STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

Honorable Matt Blunt, Governor  
and  
Members of the General Assembly  
and  
Boards of Directors of Fire Protection  
Districts in Greene County

Fire protection districts in Greene County are required by Section 321.690, RSMo, to be audited. We have conducted a review of these independent audits of the fire protection districts in Greene County. The objectives of this review were to:

1. Evaluate the impact of, and the districts' compliance with, statutory audit requirements and State Auditor's regulations on the effectiveness of financial reporting and auditing for fire protection districts in Greene County.
2. Notify the various fire protection districts and independent auditors of any specifically identifiable reporting deficiencies that should be considered and corrected in future audit reports.
3. Summarize and evaluate the financial data presented for the various fire districts, and any comments for improvements made by the independent auditors.

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

The State Auditor's office has reviewed fire protection districts' audit reports for several years and noted many improvements. It appears that the fire protection districts, on the whole, are working to improve the quality of their financial reporting. The format of this report includes an executive summary and a scope and methodology section describing what work was

performed. We solicit from the readers of this report any suggestions for changes or requests for other new information that may benefit those involved with the Greene County fire protection districts.



Claire C. McCaskill  
State Auditor

October 19, 2006 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA  
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## EXECUTIVE SUMMARY

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION  
DISTRICTS IN GREENE COUNTY  
EXECUTIVE SUMMARY

Section 321.690, RSMo, requires all fire protection districts in Greene County with revenues in excess of \$50,000 annually to cause an audit to be performed on a biennial basis. For those districts with annual revenues of less than \$50,000, the State Auditor may exempt the district from the audit requirement, if the appropriate reports are filed. Based upon financial statements filed, the West Republic Fire Protection District had annual revenues of less than \$50,000 during the year ended December 31, 2005, therefore they were exempted from the audit requirement. Financial statements filed for the West Republic Fire Protection District for the years ended December 31, 2004 and 2003 reflected annual revenues in excess of \$50,000; however, the district's total revenues included loan proceeds and other miscellaneous revenues. The West Republic Fire Protection District should monitor revenues to ensure compliance with state law.

For those districts for which an audit is required, the district must file a copy of the completed audit report and management letter with the State Auditor within six months after the close of the audit report. The audit reports and management letters are reviewed to determine that they are prepared according to guidelines contained within the Code of State Regulations (CSR) (Section 15 CSR 40-4). Any weaknesses noted during the review are communicated to the districts by letter. Should the weaknesses be of a serious enough nature to require the report to be amended, the district is granted a ninety-day period from the date of notification by the State Auditor to correct the report. The State Auditor accepted all the audit reports that were received for the year(s) ending December 31, 2005, 2004, and 2003. However, instances of non-compliance including the lack of district responses to recommendations, the lack of follow up to previous recommendations, and the lack of required report schedules were still noted. These problems were communicated to the applicable fire protection district auditors. In addition, nine districts did not submit copies of engagement letters to the state auditor as required by 15 CSR40-4.010.

Six fire districts failed to comply with the statutory deadline for at least one of the year(s) ended December 31, 2005, 2004 and 2003. The following table shows the districts that failed to meet the statutory deadline for each of the three years reviewed:

<b>District</b>	<b>2005 Report Received</b>	<b>2004 Report Received</b>	<b>2003 Report Received</b>
Ash Grove	**	No report received	
Bois D'Arc	**	No report received	
Ebenezer	**	August 9, 2006	
Fair Grove	**	December 27, 2005*	
Walnut Grove	**	August 15, 2006	December 14, 2004*
Willard	**	July 3, 2006	

\* Two Year Audit

\*\* Districts planning to obtain an audit for the two years ended December 31, 2006 will be required to submit a report to the State Auditor by June 30, 2007. The Ebenezer and Fair Grove Fire Protection Districts have provided written confirmation to the State Auditor's Office of their plans to obtain an audit for the two years ended December 31, 2006. The Ash Grove and Bois D" Arc Fire Protection Districts have engaged an auditor to audit the two years ended December 31, 2005; however, those audit reports have not been submitted to the State Auditor's Office. The Walnut Grove and Willard Fire Protection Districts have not provided written confirmation of their plans.

The Ash Grove and Bois D'Arc Fire Protection Districts have not submitted an audit report to the State Auditor's Office since the report ended December 31, 2003. While not only required by statute, timely audits also provide information to the board and district taxpayers on the financial status of the district and ways to improve the management of the district. The fire district board members should ensure audits are completed and submitted by statutory deadline.

We reviewed the relationship of the General Fund balance at year end to the year's expenditures for the districts receiving an audit for each of the year(s) ended December 31, 2005, 2004, and 2003. Two districts, Battlefield and Willard, have maintained fund balances greater than one year's cost of operations. Districts accumulating funds for the purchase of capital assets or debt reduction should evaluate the need to disclose this information in their annual budget. Additionally, the fire districts must continue to evaluate the propriety of their tax levies to ensure that excess revenues are not being received and accumulated.

Independent auditors made specific recommendations to improve the overall management of the fire districts. Recommendations included concerns regarding nepotism, expenditures, budgets, segregation of duties, accounting records and various other policies and procedures. Each fire district should review all recommendations and the applicability to their individual district. Consideration should be given by individual districts to have their independent auditor review any areas where risk and citizen concern may be evident. In addition, the State Auditor was petitioned under Section 29.230, RSMo to audit the Ebenezer Fire Protection District. The petition audit is still in process and additional findings and recommendations will be included in a subsequent report regarding that district.

## SCOPE AND METHODOLOGY

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION  
DISTRICTS IN GREENE COUNTY  
SCOPE AND METHODOLOGY

**Scope**

At December 31, 2005, there were twelve fire protection districts in Greene County. Audit reports and financial statements have been received as follows:

1. The Battlefield, Pleasant View, and Strafford Fire Protection Districts obtained annual audits for each of the years ended December 31, 2005, 2004 and 2003.
2. The Brookline and Fair Grove Fire Protection Districts obtained biennial audits for the two years ended December 31, 2004. The Ebenezer, Logan-Rogersville, and Willard Fire Protection Districts obtained annual audits for each of the years ended December 31, 2004 and 2003. The Walnut Grove Fire Protection District obtained a biennial audit for the two years ended December 31, 2003 and an annual audit for the year ended December 31, 2004. The Ebenezer, Fair Grove, and Logan-Rogersville Fire Protection Districts have provided written confirmation to the State Auditor of their plans to obtain an audit for the two years ended December 31, 2006. The Brookline, Walnut Grove, and Willard Fire Protection Districts have not provided written confirmation of their plans. No information is presented in this report for the year ended December 31, 2005 for these districts.
3. The Ash Grove and Bois D' Arc Fire Protection Districts have failed to comply with Section 321.690, RSMo. The Ash Grove Fire Protection District obtained a biennial audit for the two years ended December 31, 2003, and the Bois D' Arc Fire Protection District obtained an annual audit for the year ended December 31, 2003. These audit reports have been submitted; however, audit reports for the year(s) ended December 31, 2005 and 2004 have not been submitted for these two districts. As a result, information is not presented in this report for these years.
4. Based upon financial statements filed, the West Republic Fire Protection District had annual revenues of less than \$50,000 during the year ending December 31, 2005, therefore they were exempted from the audit requirement. Financial statements filed for the West Republic Fire Protection District for the years ending December 31, 2004 and 2003 reflected annual revenues in excess of \$50,000; however, the district's total revenues included loan proceeds and other miscellaneous revenues. The West Republic Fire Protection District should monitor annual revenues to ensure compliance with state law. Information presented in this report was obtained from unaudited information provided by this district.

During our review we: 1) considered Section 321.690, RSMo (Appendix A), 15 CSR 40-4 (Appendix B), and audit reports submitted to the State Auditor by the various fire districts for the year(s) ended December 31, 2005, 2004, and 2003, 2) reviewed the supporting working papers of various independent auditors' reports for the year(s) ended December 31, 2005, 2004, and 2003,

3) reviewed unaudited financial information provided by the West Republic Fire Protection District and 4) made inquiries of district officials and independent auditors as necessary to follow up on other specific issues brought to our attention.

## **Methodology**

We compiled the following schedules to accomplish the objectives of this report:

- Schedule 1 presents revenues, expenditures, and fund balance for the General Funds in a combined format. The General Fund is the general operating fund of the district and is used to account for all operating resources. In analyzing this schedule, some disparity will result due to the different methods of presenting essentially the same information. Reasons for some problems in comparison are as follows. The financial statements of the Ash Grove, Battlefield, Brookline, Ebenezer, Fair Grove, Logan-Rogersville, Strafford, Willard and Pleasant View Fire Protection Districts are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements of the Bois D'Arc Fire Protection District are presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements of the Walnut Grove and West Republic Fire Protection District are presented on a cash basis of accounting. The audit report footnotes of these various districts describe the basis of accounting used to present the financial statement information. The financial statements of the Pleasant View and Walnut Grove Fire Protection Districts include the general fixed asset balance in the general operating fund of the district. Additionally, revenues and expenditures of some districts include the proceeds and subsequent disbursements of loan or capital lease obligations causing revenues and expenditures to be inflated by the amount of the loan or lease.
- Schedule 2 presents the capital asset balances of the districts at December 31, 2005, 2004, and 2003. The schedule represents capital assets acquired or constructed for general governmental purposes that are reported as expenditures in the fund that financed the acquisition or construction and capitalized at historical cost or estimated historical cost if actual historical cost is not available.
- Schedule 3 presents the assessed valuations of the individual fire protection districts as well as tax levies as submitted by the districts to the State Auditor's office.
- Schedule 4 is a listing of total compensation and expense reimbursement paid to directors by each district audited. The districts' independent audit reports included the names of the principal officeholders during the year and the compensation and expense reimbursement received by each official in the performance of his or her duty as established by Section 321.190, RSMo. The districts have three-member boards of directors, except for the Brookline, Logan-Rogersville and Willard Fire Protection Districts which have five-member boards. When more than three or five names were listed, it was due to a change in the officials serving on the board.

- Schedule 5 is a summary of the various comments contained in the independent auditor's reports on compliance and internal control and in the management letters received by the State Auditor. These comments apply to individual fire protection districts unless otherwise noted. The comments extracted from the reports and management letters were not verified by the State Auditor's office via additional audit procedures for accuracy, validity, or completeness.

### **Limitations**

Some data presented in the schedules was compiled from information submitted by the various fire districts and their independent auditors and were not verified by us via additional audit procedures. In analyzing these schedules, some disparity will result due to the different methods of presenting essentially the same information.

## SCHEDULES

Schedule 1

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY  
 COMPARATIVE SCHEDULE OF REVENUE, EXPENDITURES, AND FUND BALANCES - GENERAL FUNDS

District	Year Ended December 31,									
	2003				2004			2005		
	Beginning Balance	Revenues	Expenditures	Ending Balance	Revenues	Expenditures	Ending Balance	Revenues	Expenditures	Ending Balance
Ash Grove	\$ 175,205	86,678	53,455	208,428		*			*	
Battlefield	857,237	1,162,364	696,728	1,322,873	1,362,493	887,599	1,797,767	1,485,061	1,176,604	2,106,224
Bois D'Arc	860	110,787	47,152	64,495		*			*	
Brookline	237,496	723,435	682,065	278,866	239,636	243,214	275,288		**	
Ebenezer	194,724	262,293	267,044	189,973	474,812	483,193	181,592		***	
Fair Grove	99,298	80,624	100,177	79,745	192,747	202,573	69,919		***	
Logan-Rogersville	572,194	826,712	779,431	619,475	895,247	847,314	667,408		***	
Pleasant View	234,225	120,980	63,591	291,614	167,367	87,188	371,793	107,032	95,410	383,415
Strafford	223,962	253,489	248,956	228,495	347,409	320,769	255,135	296,596	298,120	253,611
Walnut Grove	146,896	84,285	55,017	176,164	82,101	54,182	204,083		**	
West Republic	37,934	80,788	115,972	2,750	56,011	48,501	10,260	49,418	58,372	1,306
Willard	400,978	256,867	281,439	376,406	297,294	248,966	424,734		**	
	\$ 3,181,009	4,049,302	3,391,027	3,839,284	4,115,117	3,423,499	4,530,902	1,938,107	1,628,506	4,840,503

\* District has engaged auditor to audit the two years ending December 31, 2005; however, the audit has not been completed and submitted to the State Auditor's Office.

\*\* District has not provided written confirmation to the State Auditor's Office of their plans to obtain an audit for 2005.

\*\*\* District provided written confirmation to the State Auditor's Office of their plans to obtain an audit for the two years ended December 31, 2006.

Schedule 2

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY  
COMPARATIVE SCHEDULE OF CAPITAL ASSETS

District	December 31, 2003				December 31, 2004				December 31, 2005			
	Land and Buildings	Furniture and Equipment	Less Accumulated Depreciation	Total	Land and Buildings	Furniture and Equipment	Less Accumulated Depreciation	Total	Land and Buildings	Furniture and Equipment	Less Accumulated Depreciation	Total
Ash Grove	\$ 86,808	233,954	79,970	240,792				*				*
Battlefield	2,937,875	1,951,293	611,661	4,277,507	3,140,411	1,981,284	752,937	4,368,758	3,172,755	2,017,687	900,638	4,289,804
Bois D'Arc	77,883	150,498	77,052	151,329				*				*
Brookline	201,735	808,581	282,750	727,566	201,735	888,197	329,136	760,796				**
Ebenezer	188,607	363,149	0	551,756	329,578	436,483	333,213	432,848				***
Fair Grove	181,856	307,162	208,238	280,780	181,856	422,947	230,235	374,568				***
Logan-Rogersville	996,432	1,557,092	1,365,127	1,188,397	997,282	1,775,963	1,543,184	1,230,061				***
Pleasant View	85,719	250,805	46,933	289,591	85,719	361,688	94,440	352,967	85,719	489,572	154,188	421,103
Strafford	280,083	612,033	0	892,116	280,083	741,802	497,951	523,934	349,405	783,284	603,368	529,321
Walnut Grove	98,508	198,133	175,232	121,409	208,831	213,570	196,714	225,687				**
Willard	317,590	1,030,640	0	1,348,230	317,590	1,067,426	988,545	396,471				**
	\$ 3,607,879	3,290,543	1,658,194	5,240,228	5,743,085	7,889,360	4,966,355	8,666,090	5,453,096	7,463,340	2,846,963	10,069,473

\* District has engaged auditor to audit the two years ending December 31, 2005; however, the audit has not been completed and submitted to the State Auditor's Office.

\*\* District has not provided written confirmation to the State Auditor's Office of their plans to obtain an audit for 2005.

\*\*\* District provided written confirmation to the State Auditor's Office of their plans to obtain an audit for the two years ended December 31, 2006.

Schedule 3

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY  
 COMPARATIVE SCHEDULE OF ASSESSED VALUATIONS AND TAX LEVIES  
 THREE YEARS ENDED DECEMBER 31, 2005

District	Assessed Valuations			Tax Levy per \$100 of Assessed Valuation		
	2005	2004	2003	General		
	2005	2004	2003	2005	2004	2003
Ash Grove	\$ 21,719,181	20,115,598	19,312,326	0.2568	0.2586 *	0.2586
Battlefield	411,446,469	357,689,322	334,479,724	0.3390	0.3611	0.2611
Bois D'arc	20,095,789	17,733,614	16,462,224	0.3783	0.3853	0.3853
Brookline	80,926,033	82,003,627	74,772,719	0.2535	0.2593	0.2593
Ebenezer	90,622,148	79,935,888	75,592,300	0.2783	0.2933	0.2933
Fair Grove	53,950,580	47,931,077	45,800,402	0.1753	0.1825	0.1825
Logan-Rogersville	301,527,815	276,361,071	258,288,831	0.2466	0.2529	0.2539
Pleasant View	27,123,700	25,732,540	24,203,780	0.3000	0.3000	0.3000
Strafford	100,837,748	86,283,602	86,610,028	0.2448	0.2624	0.2498
Walnut Grove	32,099,457	30,136,827	28,261,874	0.2924	0.2925	0.2929
West Republic	21,797,773	19,163,412	17,881,015	0.2518	0.2657	0.2657
Willard	112,414,933	98,259,549	92,459,190	0.2502	0.2641	0.2641

\* Ash Grove Fire Protection District also had a debt service levy of .0671.

Schedule 4

REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS OF GREENE COUNTY  
 SCHEDULE OF DIRECTOR COMPENSATION BY DISTRICT

<u>District</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Ash Grove	0	*	*
Battlefield	6,600	7,100	5,750
Bois D'Arc (1)	808	*	*
Brookline	0	22	**
Ebenezer (1)	0	1,327	***
Fair Grove	****	****	***
Logan-Rogersville	4,350	4,425	***
Pleasant View (1)	696	639	188
Strafford (1)	4,250	4,700	5,012
Walnut Grove (1)	1,480	480	**
Willard	0	0	**

\* District has engaged auditor to audit the two years ending December 31, 2005; however, the audit has not been completed and submitted to the State Auditor's Office.

\*\* District has not provided written confirmation to the State Auditor's Office of their plans to obtain an audit for 2005

\*\*\* District provided written confirmation to the State Auditor's Office of their plans to obtain an audit for the two years ended December 31, 2006.

\*\*\*\* This audit report did not include a schedule of compensation and expense reimbursement to directors.

(1) Includes expense reimbursements.

## Schedule 5

### REVIEW OF INDEPENDENT AUDITS OF FIRE PROTECTION DISTRICTS IN GREENE COUNTY SUMMARY OF MANAGEMENT LETTER COMMENTS ISSUED BY AUDITORS IN CONNECTION WITH THE AUDITS OF THE THREE YEARS ENDED DECEMBER 31, 2005

#### Nepotism/Related Party Transactions

- One district report had a concern regarding nepotism.
- One district did not adequately document related party transactions.

#### Expenditures/Purchasing

- Some expenditures from one district represented a use of taxpayer funds for purposes outside the normal course of fire protection.
- Weaknesses were identified in one district's policy regarding fuel allowances.
- Fuel and vehicle allowances were not properly reported according to IRS regulations in two districts.
- Adequate supporting documentation for expenditures was not retained in one district.
- Expenditures in one district included the payment of sales tax.
- One district failed to properly document payment of invoices.
- Board approval of financial activity not documented by one district.

#### Budgets

- Three districts had actual expenditures which exceeded budgeted expenditures.
- Two district's boards failed to document their approval of the budget in the board minutes.
- Two district's budgets did not contain all the required components as specified by Chapter 67 RSMo.

### Accounting Records and Procedures

- There was a lack of segregation of duties in five districts.
- Inadequate recordkeeping and financial reporting was noted for four districts.
- In one district, the board's approval for yearly increases in retirement plan matching funds was not documented in minutes.
- Two districts failed to implement GASB 34 by the implementation deadline.
- One district's treasurer was not bonded as required by statute.
- One district's titles for donated equipment had not been transferred to the district's name.
- One district's financial activity was not adequately reconciled to the cash balance.

## APPENDICES

*Missouri Revised Statutes*

**Chapter 321  
Fire Protection Districts  
Section 321.690**

**Audits to be performed, when--rules established by state auditor (Christian County fire protection districts exempt from audits).**

321.690. 1. In counties of the first classification having a charter form of government and having more than nine hundred thousand inhabitants and in counties of the first classification which contain a city with a population of one hundred thousand or more inhabitants which adjoins no other county of the first classification, the governing body of each fire protection district shall cause an audit to be performed consistent with rules and regulations promulgated by the state auditor.

2. (1) All such districts shall cause an audit to be performed biennially. Each such audit shall cover the period of the two previous fiscal years.

(2) Any fire protection district with less than fifty thousand dollars in annual revenues may, with the approval of the state auditor, be exempted from the audit requirement of this section if it files appropriate reports on its affairs with the state auditor within five months after the close of each fiscal year and if these reports comply with the provisions of section 105.145, RSMo. These reports shall be reviewed, approved and signed by a majority of the members of the governing body of the fire protection district seeking exemption.

3. Copies of each audit report must be completed and submitted to the fire protection district and the state auditor within six months after the close of the audit period. One copy of the audit report and accompanying comments shall be maintained by the governing body of the fire protection district for public inspection at reasonable times in the principal office of the district. The state auditor shall also maintain a copy of the audit report and comment. If any audit report fails to comply with the rules promulgated by the state auditor, that official shall notify the fire protection district and specify the defects. If the defects specified are not corrected within ninety days from the date of the state auditor's notice to the district, or if a copy of the required audit report and accompanying comments have not been received by the state auditor within six months after the end of the audit period, the state auditor shall make, or cause to be made, the required audit at the expense of the fire protection district.

4. The provisions of this section shall not apply to any fire protection district based and substantially located in a county of the third classification with a population of at least thirty-one thousand five hundred but not greater than thirty-three thousand.

(L. 1977 H.B. 216, A.L. 1981 S.B. 200, A.L. 1986 H.B. 877, A.L. 1991 S.B. 34, A.L. 1993 H.B. 177 and S.B. 346, A.L. 1998 H.B. 1847)

**Rules of  
Elected Officials  
Division 40—State Auditor  
Chapter 4—Audits of Fire Protection Districts  
in St. Louis and Greene Counties**

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**Title 15—ELECTED OFFICIALS****Division 40—State Auditor  
Chapter 4—Audits of Fire Protection  
Districts in St. Louis and Greene  
Counties****15 CSR 40-4.010 Requirements for Districts**

*PURPOSE: The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule sets forth requirements to be met directly by the district.*

- (1) The district is responsible for preparing and providing financial information to be included in the audit report. The district shall maintain adequate accounting records for that purpose. These records may be maintained on the bases of accounting deemed appropriate by the district but the records shall provide adequate information to allow the district to report in accordance with generally accepted accounting principles.
- (2) The district shall engage an independent auditor to conduct the audit. The state auditor does not recommend, select or approve the district's auditor or the auditor's fee, except as provided in 15 CSR 40-4.010(4). The district is responsible for fulfilling all contractual obligations with the auditor, including payment of all earned fees.
- (3) The district shall require from the independent auditor an engagement letter which sets out all essential particulars. A copy of the engagement letter shall be submitted to the state auditor for his/her review before commencement of audit fieldwork. The purpose of this review is to provide reasonable assurance that the district has contractually committed an auditor to provide services to satisfy requirements of 15 CSR 40-4. The contents of this letter should include, but are not limited to:
  - (A) Period for which the financial statements are audited;
  - (B) Purpose of the audit;
  - (C) Scope of the audit, including consideration of the internal control structure and tests of compliance with applicable laws and regulations;
  - (D) Provisions that the auditor will communicate, in writing, to the district material weaknesses or reportable conditions in the internal control structure, instances of non-compliance with applicable laws and regulations and other areas of possible improvement;
  - (E) Provision that all workpapers, etc., will be made available to the state auditor for his/her review upon his/her request;
- (F) Provision that the auditor will comply with applicable rules issued by the state auditor under 15 CSR 40;
- (G) Provision that the auditor will discuss with the district any factors s/he may discover which would prevent him/her from issuing an unqualified opinion on the financial statements and allow the district and the auditor the opportunity to arrive at a resolution acceptable to both;
- (H) Statement of the auditor's responsibility for detection of errors, irregularities and illegal acts; and
- (I) The estimated cost of the audit and the rates which are the basis for that estimate.

(4) The district must file a copy of the completed audit report with the state auditor within six (6) months after the close of the audit period. If any audit report fails to comply with promulgated rules, the state auditor will notify the district and specify the defects. If the specified defects are not corrected within ninety (90) days from the date of the state auditor's notice to the district, or if a copy of the required audit report has not been received by the state auditor within the specified time, the state auditor will make, or cause to be made, the required audit at the expense of the district.

*Auth: section 321.690, RSMo (Cum. Supp. 1993). \* Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

*\*Original authority 1977, amended 1981, 1986, 1991, 1993.*

**15 CSR 40-4.020 Standards for Auditing and Financial Reporting**

*PURPOSE: The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule sets forth standards for the auditing and financial reporting of the district.*

- (1) The independent auditor shall meet all requirements of Chapter 326, RSMo. The auditor must be able to demonstrate that s/he meets the independence criteria contained in the code of professional ethics and rules of conduct promulgated by the Missouri State Board of Accountancy.
- (2) The independent auditor shall provide to the state auditor reasonable notification of any entrance or exit conferences held with the district. This notification shall be sufficiently

in advance to allow the state auditor to attend the entrance or exit conference at his/her discretion. Upon request, the independent auditor shall provide a draft copy of the audit report and management letter to the state auditor prior to the exit conference.

(3) The audit shall conform to the standards for auditing of governmental organizations, programs, activities and functions as established by the comptroller general of the United States.

(4) The financial statements, supplementary data and accompanying notes shall be presented in conformity with generally accepted accounting principles.

*Auth: section 321.690, RSMo (Cum. Supp. 1993). \* Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

*\*Original authority 1977, amended 1981, 1986, 1991, 1993.*

**15 CSR 40-4.030 Contents of Audit Reports**

*PURPOSE: The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule describes required and suggested information to be included in the audit reports.*

(1) Standards for auditing and financial reporting of fire protection districts are given in 15 CSR 40-4.020.

- (2) All audit reports shall contain:
  - (A) A table of contents;
  - (B) A report on the financial statements;
  - (C) Combined financial statements and appropriate note disclosures;
  - (D) Other financial information which includes, but is not limited to, the following:
    1. Supplemental schedule of expenditures/expenses by object, if not included in the financial statements;
    2. Tax rates and assessed valuation;
    3. Schedule of insurance in force which shall include, in addition to other information, the agent for each policy; and
    4. Principal officeholders who held office during the period under audit, compensation received by each official in performance of his/her duty and all other compensation or reimbursement of expenses made by the district to each officeholder; and

(E) A report on the consideration of the internal control structure, a report on the tests of compliance with applicable laws and regulations and a management letter communicating areas of possible improvement not otherwise reported. The required scope of audit for the reports and management letter is set forth in 15 CSR 40-4.040(3). The reports and management letter shall include the findings and recommendations, if any, which the auditor developed during his/her audit and the district's responses to those findings and recommendations. The reports and management letter shall also indicate the nature of previous recommendations and the extent to which the district has implemented those recommendations.

(3) If the district or the auditor deems it appropriate, audit reports may contain or utilize the following:

- (A) A history and organization section prepared by the district (unaudited);
- (B) Comparative financial data for one (1) or more years; and
- (C) Other statements, exhibits, schedules or analyses as deemed necessary or appropriate by the district or the auditor.

*Auth: section 321.690, RSMo (Cum. Supp. 1993). \* Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

*\*Original authority 1977, amended 1981, 1986, 1991, 1993.*

#### 15 CSR 40-4.040 Scope of Audit

**PURPOSE:** *The state auditor has authority to establish standards and reporting requirements for audits performed on fire protection districts in St. Louis and Greene Counties. This rule sets forth the scope of the audit.*

(1) Nothing in the rules promulgated for audits of fire protection districts shall be construed as restricting, limiting or relieving the independent auditor of his/her professional judgment or responsibility.

(2) The audit shall include those tests of the accounting records and other auditing procedures which the independent auditor considers necessary in the circumstances to conform to the standards for auditing of governmental organizations, programs, activities and functions as established by the comptroller general of the United States.

(3) As part of the audit described in section (2), the auditor will obtain an understanding of the internal control structure, assess control risk and report any material weaknesses or reportable conditions. The auditor will also test compliance with applicable laws and regulations and report all material instances of noncompliance. As a part of, or in addition to, audit tests or procedures which may be necessary for the audit, the auditor shall—

(A) Review systems, procedures and management practices, including:

1. Review cash management practices to the extent necessary to determine whether significant improvements appear practicable and economically justifiable;
2. Evaluate the purchasing function to the extent necessary to determine that the district generally receives fair value, for example, bidding of significant purchases; that purchases generally represent items consistent with the function of the district; and that there is not significant likelihood of misuse or misappropriation of the district's resources through the purchasing process;
3. Review fixed asset records and procedures to the extent necessary to determine that fixed assets are properly recorded, physically controlled and in the possession of the district;
4. Review fidelity bond coverages to determine that all persons with access to assets of the district appear covered in sufficient amounts;
5. Evaluate the budgeting practices to the extent necessary to determine whether significant improvements appear practicable and economically justifiable;

6. Review related party transactions;

7. Review evaluate other areas as required by the district; and

8. Review significant areas or matters which come to the attention of the auditor;

(B) The auditor will note areas of possible improvement in the district's systems, procedures and management practices. In evaluating district systems, procedures and management practices, the auditor should consider whether improvements appear practicable and economically justifiable.

(C) Test compliance with applicable laws and regulations, including:

1. Design the audit to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on the financial statements;
2. Be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements; and
3. Test compliance with other legal provisions as s/he deems necessary or appropriate in the circumstances.

(D) Legal provisions which the auditor should consider in his/her audit include, but are not limited to, the following:

1. Article III, Sections 38(a) and 39(3) and Article VI, Section 25, *Constitution of Missouri* limitations on use of funds and credit;

2. Article VI, Section 26, *Constitution of Missouri* limitations on indebtedness without popular vote;

3. Article VI, Section 29, *Constitution of Missouri* application of funds derived from public debts;

4. Article VII, Section 6, *Constitution of Missouri* penalty for nepotism;

5. Chapter 67, RSMo budgetary requirements;

6. Sections 70.210 to 70.230 and Section 432.070, RSMo contracts;

7. Section 105.145, RSMo annual report;

8. Chapter 105, RSMo conflict of interest;

9. Chapter 108, RSMo bond issues;

10. Chapter 321, RSMo fire protection districts;

11. Other applicable portions of the *Constitution of Missouri* and the *Missouri Revised Statutes*;

12. Applicable sections of *Code of State Regulations*; and

13. Other applicable legal provisions.

(4) The auditor shall report on the reviews and examinations required by this rule in a management letter as set forth in 15 CSR 40-4.030 (2)(E).

*Auth: section 321.690, RSMo (Cum. Supp. 1993). \* Original rule filed May 12, 1978, effective Sept. 11, 1978. Amended: Filed Dec. 2, 1985, effective Feb. 13, 1986. Amended: Filed June 14, 1994, effective Nov. 30, 1994.*

*\*Original authority 1977, amended 1981, 1986, 1991, 1993.*