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Missouri State Auditor

Review of Independent Audits of Fire Protection Districts in Greene County

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Missouri State Auditor

YELLOW SHEET

Findings in the audit of the Greene County Fire Protection Districts

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. The West Republic Fire Protection District failed to comply with state law and did not file an audit report for the years ended December 31, 2008 and 2007. The Ash Grove Fire Protection District failed to comply with state law and did not file an audit report for the year ended December 31, 2008.

We reviewed the relationship of the General Fund balance at year end to the year's expenditures for the districts receiving audits for the years ended December 31, 2008 and 2007. The fund balance of the Brookline Fire Protection District has increased by 20 percent or more during the last 2 years. Additionally, six districts, Ash Grove, Battlefield, Bois D'Arc, Brookline, Pleasant View, and Walnut Grove, have maintained fund balances greater than one year's cost of operations. Expenditures exceeded revenues during 2008 for the Willard Fire Protection District, resulting in a significant decrease in the reported cash balance. The increase in expenditures was mostly caused by the purchase of land and buildings in 2008.

Independent auditors made specific recommendations to improve the overall management of the fire districts. In total, over 30 recommendations were made to the various districts in 2008 and 2007. Recommendations included concerns regarding expenditures, budgets, segregation of duties, accounting records, and various other policies and procedures.

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Review of Independent Audits of Fire Protection Districts in Greene County

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SUSAN MONTEE, JD, CPA
Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Members of the General Assembly
and
Boards of Directors of Fire Protection
Districts in Greene County

Certain fire protection districts 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 the 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 work 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.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Alice M. Fast, CPA, CIA, CGFM
Audit Manager: Pamela Allison Tillery, CPA

Review of Independent Audits of Fire Protection Districts in Greene County Executive Summary

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.

The West Republic Fire Protection District failed to comply with state law and did not file an audit report with the State Auditor for the years ended December 31, 2008 and 2007. While district officials provided an audit engagement letter indicating an auditor has been engaged to audit these years, a report has not been completed and submitted. Similar noncompliance was reported for the West Republic Fire Protection District in the prior review. The Ash Grove Fire Protection District failed to comply with state law and did not file an audit report for the year ended December 31, 2008. While district officials provided an audit engagement letter indicating an auditor has been engaged to audit this year, a report has not been completed or submitted.

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 6 months after the close of the fiscal year. The audit reports and management letters are reviewed to determine if 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 90-day period from the date of notification by the State Auditor to correct the report. The State Auditor accepted seven audit reports for the year ended December 31, 2008, ten audit reports for the year ended December 31, 2007, and one biennial audit report for the 2 years ended December 31, 2008. However, instances of noncompliance including the lack of district responses to recommendations were still noted. These problems were communicated to the applicable fire protection district auditors. In addition, ten districts for the year ended December 31, 2008, and nine districts for the year ended December 31, 2007, did not submit copies of engagement letters to the State Auditor as required by 15 CSR40-4.010.

The timeliness of reporting has not improved during the last 2 years. Four of seven reports for the year ended December 31, 2008, and six of ten reports for the year ended December 31, 2007, were received after the respective statutory deadline. The biennial audit was received by the statutory deadline. The following table shows the districts that failed to meet the statutory deadlines:



Review of Independent Audits of Fire Protection Districts in Greene County
Executive Summary

District	2008 Report Received	2007 Report Received
Bois D'Arc	N/A	January 15, 2009
Brookline	August 31, 2009	August 31, 2009
Ebenezer	N/A	July 7, 2008
Fair Grove	October 2, 2009	October 2, 2009
Pleasant View	October 28, 2009	N/A
Strafford	September 30, 2009	September 30, 2009
Walnut Grove	N/A	July 21, 2008

While not only required by statute, timely audits also provide information to the boards and district taxpayers on the financial status of the districts and ways to improve the management of the districts. Fire district board members should ensure audits are completed and submitted by the statutory deadline.

We reviewed the relationship of the General Fund balance at year end to the year's expenditures for the districts receiving audits for the years ended December 31, 2008 and 2007. The fund balance of the Brookline Fire Protection District has increased by 20 percent or more during the last 2 years. Additionally, six districts, Ash Grove, Battlefield, Bois D'Arc, Brookline, Pleasant View, and Walnut Grove, have maintained fund balances greater than a year's cost of operations. The fire districts must continue to evaluate the propriety of their tax levies to ensure excess revenues are not received and accumulated. Districts accumulating funds for the purchase of capital assets or debt reduction should evaluate the need to disclose this information in their annual budget. Expenditures exceeded revenues during 2008 for the Willard Fire Protection District, resulting in a significant decrease in the reported cash balance. The increase in expenditures was primarily caused by the purchase of land and buildings in 2008.

The fire protection districts are continuing to add land, buildings, and equipment each year to their capital structure. While gross capital asset balances continue to increase, more districts are recording depreciation amounts for these capital asset values. As noted above, the Willard Fire Protection District's assets increased more than other districts with the addition of approximately \$200,000 in land and buildings.

Assessed valuations for the districts also continue to increase. Tax rates remained steady from 2007 to 2008. In November 2007, voters of the Ash Grove Fire Protection District approved an increase in their tax levy to provide additional revenues to the district.

Independent auditors made specific recommendations to improve the overall management of the fire districts. In total, over 30 recommendations were



Review of Independent Audits of Fire Protection Districts in Greene County Executive Summary

made to the various districts in 2008 and 2007. Recommendations included concerns regarding 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.

Review of Independent Audits of Fire Protection Districts in Greene County Scope and Methodology

Scope

At December 31, 2008, there were 12 fire protection districts in Greene County. Audit reports and financial statements have been received as follows:

1. Battlefield, Brookline, Fair Grove, Strafford, Walnut Grove, and Willard Fire Protection Districts submitted an annual audit for each of the years ended December 31, 2008 and 2007. The Logan Rogersville Fire Protection District submitted a biennial audit for the 2 years ended December 31, 2008. The Pleasant View Fire Protection District submitted an annual audit for the year ended December 31, 2008. The Bois D'Arc and Ebenezer Fire Protection Districts submitted annual audits for the year ended December 31, 2007. The Ash Grove and Pleasant View Fire Protection Districts submitted biennial audits for the 2 years ended December 31, 2007.

The West Republic Fire Protection District has failed to comply with Section 321.690, RSMo, and has not submitted audit reports for the years ended December 31, 2008 and 2007. While district officials provided an audit engagement letter indicating an auditor has been engaged to audit these years, a report has not been completed and submitted. As identified in our prior report, the West Republic Fire Protection District also did not comply with the statutory deadline when submitting its audit for the year ended December 31, 2006. In addition, the Ash Grove Fire Protection District has failed to comply with Section 321.690, RSMo, and has not submitted an audit report for the year ended December 31, 2008. While district officials provided an audit engagement letter indicating an auditor has been engaged to audit this year, a report has not been completed and submitted. No information is presented in this report for the West Republic Fire Protection District for the years ended December 31, 2008 and 2007, and the Ash Grove Fire Protection District for the year ended December 31, 2008.

2. Our prior report identified the Fair Grove and West Republic Fire Protection Districts as failing to comply with Section 321.690, RSMo, because reports for 2006 had not been submitted. The Fair Grove and West Republic Fire Protection Districts submitted annual audits for the year ended December 31, 2006, on February 25, 2008, and January 14, 2008, respectively. The Bois D'Arc and Ebenezer Fire Protection Districts provided written confirmation of their plans to obtain biennial audits for the 2 years ended December 31, 2009. No information is presented in this report for the year ended December 31, 2008, for the Bois D'Arc, and Ebenezer Fire Protection Districts.



Review of Independent Audits of Fire Protection Districts in Greene County Scope and Methodology

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 years ended December 31, 2008 and 2007, (2) reviewed the supporting working papers of various independent auditors' reports for the years ended December 31, 2008 and 2007, and (3) 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 information and schedules to accomplish the objectives of this report:

- The Summary of Findings in the Independent Auditor Reports is a summary of the various comments contained in the independent auditors' 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. These comments extracted from the reports and management letters were not verified by the State Auditor's office.
- Schedule 1 presents revenues, expenditures, and fund balances for the General Funds in a combined format. The General Fund is the general operating fund of the districts 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, Ebenezer, and Pleasant View Fire Protection Districts are presented on the accrual basis of accounting, and the financial statements of the Battlefield, Strafford, and Willard Fire Protection Districts 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 Bois D'Arc, Brookline, and Fair Grove Fire Protection Districts are presented on a modified cash basis of accounting, and the Logan-Rogersville and Walnut Grove Fire Protection Districts are presented on a cash basis of accounting. The notes to the financial statements of these various district audit reports describe the basis of accounting used to present the financial statement information.
- Schedule 2 presents the capital asset balances of the districts at December 31, 2008 and 2007. 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.



Review of Independent Audits of Fire Protection Districts in Greene County Scope and Methodology

- Schedule 3 presents the assessed valuations of the individual fire protection districts as well as tax levies for the years ended December 31, 2008 and 2007.
- 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 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.

Limitations

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

Review of Independent Audits of Fire Protection Districts in Greene County Summary of Findings in the Independent Auditor Reports

This section summarizes the various comments contained in the independent auditor reports on compliance and internal control and in the management letters issued by auditors in connection with the audits for the years ended December 31, 2008 and 2007.

Accounting Records and Procedures

- A lack of segregation of duties was noted in eight districts.
- One district did not have staff with sufficient expertise needed to properly apply accounting principles generally accepted in the United States and three districts did not have staff with sufficient expertise needed to prepare financial statements in conformity with Government Accounting Standards.
- Three districts did not have procedures in place to ensure the correct reporting of capital assets on their financial statements.
- One district did not have adequate documentation of capital asset additions or disposals.
- One district invested monies in a mutual fund, and such an investment may not be allowed by state statute.

Conflicts of Interest

- One district did not adequately document related party transactions.

Expenditures and Payroll

- One district should establish a method of tracking maintenance costs by vehicle.
- One district failed to retain copies of some Forms 1099, and some payments were reported on the wrong Forms 1099.
- One district did not retain supporting documentation for some expenditures and did not monitor purchases for sales tax.
- One district needs to improve controls and procedures over fuel purchases.
- One district did not prepare purchase orders for some expenditures.
- One district failed to retain copies of payroll tax Forms W-2.
- One district should utilize the Electronic Federal Tax Filing System to disburse payroll taxes.



Review of Independent Audits of Fire Protection Districts in Greene County
Summary of Management Letter Comments

Budgets

- Two districts' budgets did not contain all of the required components as specified by Chapter 67, RSMo.
- No revenues were budgeted for one district.
- One district board did not approve the annual budget.

Schedule 1

Review of Independent Audits of Fire Protection Districts in Greene County
Comparative Schedule of Revenues, Expenditures, and Balances

District	Year Ended December 31,							
	2007					2008		
	Beginning Balance	Prior Period Adjustment	Revenues	Expenditures	Ending Balance	Revenues	Expenditures	Ending Balance
Ash Grove	\$ 374,201	0	74,615	93,086	355,730	*	*	*
Battlefield	2,282,874	0	1,674,174	1,754,964	2,202,084	1,718,450	1,414,790	2,505,744
Bois D'Arc	98,178	0	83,118	65,200	116,096	**	**	**
Brookline	150,365	0	227,171	164,120	213,416	223,744	181,108	256,052
Ebenezer	343,351	0	295,430	345,535	293,246	**	**	**
Fair Grove	15,093	9,278	270,955	287,090	8,236	131,449	110,004	29,681
Logan-Rogersville	17,964	103,192	1,234,144	1,176,325	178,975	1,287,928	1,329,608	137,295
Pleasant View	356,542	0	86,306	141,375	301,473	91,401	163,080	229,794
Strafford	282,989	0	322,384	292,019	313,354	387,984	363,394	337,944
Walnut Grove	249,852	0	101,900	70,294	281,458	108,495	96,585	293,368
West Republic	***	***	***	***	***	***	***	***
Willard	503,412	0	395,759	295,691	603,480	372,700	541,312	434,868
	\$ 4,674,821	112,470	4,765,956	4,685,699	4,867,548	4,322,151	4,199,881	4,989,818

- * The district has engaged an auditor to audit the year ended December 31, 2008, but the audit report has not been completed and submitted to the State Auditor's office.
- ** The district plans to obtain an audit for the 2 years ended December 31, 2009.
- *** The district has engaged an auditor to audit the years ended December 31, 2008 and 2007, but the audit report has not been completed and submitted to the State Auditor's office.

Schedule 2

Review of Independent Audits of Fire Protection Districts in Greene County
Comparative Schedule of Capital Assets

District	December 31, 2008				December 31, 2007			
	Land and Buildings	Furniture and Equipment	Less Accumulated Depreciation	Total	Land and Buildings	Furniture and Equipment	Less Accumulated Depreciation	Total
Ash Grove	\$ *	*	*	*	90,608	454,963	206,593	338,978
Battlefield	3,310,151	2,202,160	1,368,682	4,143,629	3,236,983	2,178,515	1,207,868	4,207,630
Bois D'Arc	**	**	**	**	144,510	148,354	198,174	94,690
Brookline	201,735	1,164,798	595,676	770,857	201,735	1,164,798	520,883	845,650
Ebenezer	**	**	**	**	331,073	1,431,642	581,042	1,181,673
Fair Grove	191,901	615,634	378,021	429,514	189,224	612,134	334,938	466,420
Logan-Rogersville	1,011,896	2,332,964	***	3,344,860	1,011,896	2,369,633	***	3,381,529
Pleasant View	85,719	778,902	421,159	443,462	85,719	666,202	312,047	439,874
Strafford	410,655	1,201,564	988,442	623,777	357,141	1,191,268	848,772	699,637
Walnut Grove	365,636	283,844	256,617	392,863	361,512	236,071	223,744	373,839
West Republic	****	****	****	****	****	****	****	****
Willard	521,525	1,638,845	1,279,323	881,047	317,590	1,597,828	1,170,659	744,759
	\$ <u>6,099,218</u>	<u>10,218,711</u>	<u>5,287,920</u>	<u>11,030,009</u>	<u>6,327,991</u>	<u>12,051,408</u>	<u>5,604,720</u>	<u>12,774,679</u>

* The district has engaged an auditor to audit the year ended December 31, 2008, but the audit report has not been completed and submitted to the State Auditor's office.

** The district plans to obtain an audit for the 2 years ended December 31, 2009.

*** The district presents assets on a cash basis, reporting disbursements when cash is expended, and depreciation is not expensed.

**** The district has engaged an auditor to audit the years ended December 31, 2008 and 2007, but the audit report has not been completed and submitted to the State Auditor's office.

Schedule 3

Review of Independent Audits of Fire Protection Districts in Greene County
 Comparative Schedule of Assessed Valuations and Tax Levies

District	Assessed Valuations		Tax Levy per \$100 of Assessed Valuation	
			General	
	2008	2007	2008	2007
Ash Grove*	\$ 23,545,921	23,412,726	0.3544	0.2544
Battlefield	496,047,662	482,386,800	0.3262	0.3262
Bois D'arc	22,147,708	21,430,582	0.3000	0.3000
Brookline	91,403,520	89,969,987	0.2435	0.2430
Ebenezer	102,664,230	100,304,391	0.2766	0.2766
Fair Grove	61,882,002	61,160,540	0.1720	0.1705
Logan-Rogersville	356,876,319	347,233,377	0.3526	0.3526
Pleasant View	28,991,660	28,497,770	0.3000	0.3000
Strafford	127,790,591	119,540,360	0.2432	0.2432
Walnut Grove	34,557,056	34,739,362	0.2954	0.2898
West Republic	23,914,816	23,273,723	0.2511	0.2511
Willard	131,977,937	127,267,435	0.2441	0.2441

* Voter approved tax levy increase in 2008.

Schedule 4

Review of Independent Audits of Fire Protection Districts in Greene County
 Comparative Schedule of Director Compensation and Expense Reimbursement by District

District	2008	2007
Ash Grove*****	\$ *	1,320
Battlefield	7,300	5,850
Bois D'Arc	**	***
Brookline	***	***
Ebenezer	**	10,614
Fair Grove	***	***
Logan-Rogersville	4,725	5,190
Pleasant View*****	797	562
Strafford*****	5,850	4,250
Walnut Grove	***	***
West Republic	****	****
Willard	0	0

- * The district has engaged an auditor to audit the year ended December 31, 2008, but the audit report has not been completed and submitted to the State Auditor's office.
- ** The district plans to obtain an audit for the 2 years ended December 31, 2009.
- *** The audit report did not include a schedule of compensation and expense reimbursement to directors.
- **** The district has engaged an auditor to audit the years ended December 31, 2008 and 2007, but the audit report has not been completed and submitted to the State Auditor's office.
- ***** Includes expense reimbursements.

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.

**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.

AUTHORITY: section 321.690, RSMo 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: 321.690, RSMo 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.

AUTHORITY: section 321.690, RSMo 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: 321.690, RSMo 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.

AUTHORITY: section 321.690, RSMo 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: 321.690, RSMo 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 con-

form 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;

(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).

AUTHORITY: section 321.690, RSMo 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.*

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