



Claire McCaskill

Missouri State Auditor

December 2006

Ozark Fire Protection District

Year Ended December 31, 2005



Office Of
Missouri State Auditor
Claire McCaskill

December 2006

The following findings were included in our audit report on the Ozark Fire Protection District.

Board Members of the Ozark Fire Protection District have failed to provide the oversight necessary to ensure district funds are accounted for properly. The lack of internal control and little or no independent review have resulted in the following:

- Improper and questionable charges to district credit cards total over \$28,000, and approximately \$24,000 was electronically disbursed from the district's bank account without authorization to pay for these charges. Felony stealing charges are currently pending against the district's former Administrative Assistant.
- An additional \$1,630 was electronically disbursed from the district's bank account and appears to have been used to cover personal debt.
- Several questionable payroll transactions involving the former Administrative Assistant were identified. Examples include the number of hours reported on time sheets did not always agree with the numbers of hours paid, the hourly rate paid did not always agree with the rate approved by the Board, and compensatory and vacation time used is questionable.
- Checks totaling at least \$2,200 were written to cash and endorsed by the former Administrative Assistant without adequate documentation to support the use of these funds.

On two occasions the Board approved wage increases for the former Administrative Assistant without any documented review of her work, and while district by-laws require a biennial audit, Board Members failed to obtain an audit of district funds until 2006. Inadequate oversight by the Fire Protection District Board has placed district funds at risk.

Documentation used to support fire district expenses relating to grant funds received through the City of Ozark is questionable. Invoices used as documentation appear to be duplicates of other invoices on file at the district. An investigation has been performed by the Missouri State Highway Patrol, and information has been turned over to the Christian County Prosecuting Attorney.

The district paid a company owned by a board member \$25,254 for labor and materials relating to construction work. The district did not solicit bids as required by state law, or obtain a written agreement for these services. Additionally, the board meeting minutes did not specify the work to be performed or indicate an estimate of the total cost of the project.

(over)

YELLOW SHEET

Monthly financial reports reviewed by the Board were incomplete, and the district's accounting records contained several questionable entries. Additionally, reconciliations between the accounting records and the bank statements were not performed monthly, as a result, errors and unrecorded transactions were not detected timely.

Significant weaknesses were identified in the accounting controls over district receipts, and as a result, there is no assurance that all cash received by the district was accounted for properly. Additionally, records documenting the district's petty cash activity prior to May 2005 could not be located, and records maintained after that date were inadequate and incomplete.

District funds were used for several disbursements that do not appear to be necessary. Examples include the annual awards banquet in 2005, 2004, and 2003 (\$9,302), turkeys and hams purchased in 2005 and 2004 (\$1,511), and other expenses such as alcoholic beverages, late fees, and donations. Additionally, the district's bidding procedures could be made more effective by adopting a comprehensive bid policy, and controls are not in place to ensure all district expenses are reviewed and approved, and include adequate supporting documentation.

The district's controls over payroll transactions need improvement. Payroll duties are not adequately segregated, and time worked is not adequately documented and approved on time sheets. Further, the district's procedures for reporting compensation to the IRS needs improvement, as numerous differences were identified between accounting records and reports filed with the IRS.

Travel and training policies have not been followed, and documentation to support most training expenses were not maintained. Additionally, the district's policy does not provide guidelines to determine when lodging costs should be reasonably incurred.

Also included in the report are recommendations related to district policies, budgetary procedures, board meeting minutes, and capital assets.

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OZARK FIRE PROTECTION DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS	4-34
<u>Number</u>	<u>Description</u>
1.	Lack of Financial Monitoring5
2.	Credit Cards6
3.	Questionable Transactions9
4.	Related Party Transaction12
5.	Accounting Controls and Procedures13
6.	Expenditures19
7.	Payroll and Personnel Matters22
8.	Travel and Training26
9.	District Policies and Procedures27
10.	Budgetary Procedures30
11.	Board Meeting Minutes31
12.	Capital Assets33
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION	35-37

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Directors
Ozark Fire Protection District
604 North 3rd Street
Ozark, Missouri 65721

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Ozark Fire Protection District. The district engaged Davis, Lynn & Moots, P.C., Certified Public Accountants (CPAs), to audit the district's financial statements for the year ended December 31, 2005. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended December 31, 2005. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the district, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide

reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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

The accompanying Management Advisory Report presents our findings arising from our audit of the Ozark Fire Protection District.



Claire McCaskill
State Auditor

August 10, 2006 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Donna Christian, CPA, CGFM
In-Charge Auditor:	Jay Ross
Audit Staff:	Diane Smiley
	Christine Miller
	Alex Parke

MANAGEMENT ADVISORY REPORT SECTION –
STATE AUDITOR'S FINDINGS

OZARK FIRE PROTECTION DISTRICT
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Lack of Financial Monitoring
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Board Members of the Ozark Fire Protection District have failed to provide the oversight necessary to ensure district funds are accounted for properly. The lack of internal control and little or no independent review allowed the misappropriation of district funds to occur and not be detected.

- Charges to district credit cards are not adequately reviewed and approved by the Board resulting in improper and questionable charges totaling over \$28,000 between January 2004 and September 2005. Additionally, district bank accounts are not adequately monitored allowing unauthorized electronic disbursements totaling approximately \$24,000 to be made from the district's bank account to pay for these charges. Felony stealing charges are currently pending against the district's former Administrative Assistant. (See MAR 2)
- Approximately \$1,630 was electronically transferred from the district's bank account and appears to have been used to cover insufficient fund checks drawn on a personal bank account, and other personal debt. (See MAR 3)
- On two occasions the Board approved wage increases for the former Administrative Assistant without any documented evaluation or review of her work.
- Payroll transactions are not adequately reviewed and approved resulting in questionable payroll disbursements. (See MAR 3 and 7)
- Documentation to support fire district expenses relating to grant funds received through the City of Ozark is questionable. (See MAR 3)
- Checks totaling at least \$2,200 were written to cash and endorsed by the former Administrative Assistant without adequate documentation to support the use of these funds. (See MAR 8)
- Although district by-laws require a biennial audit, Board Members failed to obtain an audit of district funds until 2006. (See MAR 9)
- A company owned by one board member was paid \$25,254 without soliciting bids as required by state law, maintaining adequate documentation, or obtaining a written agreement. (See MAR 4)

- District records are not properly safeguarded and some records could not be located for our review. In July 2005 the district contacted the Ozark Police Department concerning the disappearance of bank statements and cancelled checks for 2002 and 2003. These records were reproduced by the bank; however, numerous other records such as vendor invoices, receipt books, payroll reports, and documentation of petty cash activity could not be located.

By not providing adequate oversight, the Fire Protection District Board has placed district funds at risk, resulting in the misappropriation and improper use of district funds. Board Members should ensure district funds are properly accounted for by adequately reviewing and approving district transactions, monitoring bank accounts, adequately supervising employees, safeguarding records, and obtaining audits as required.

WE RECOMMEND the Fire Protection District Board of Directors provide the necessary oversight to ensure district funds are handled appropriately, including reviewing and approving district transactions, monitoring bank accounts, supervising employees, safeguarding records, and obtaining audits as required.

AUDITEE'S RESPONSE

The Board provided the following response:

The Board of Directors of the Ozark Fire Protection District appreciates the manner in which this audit was conducted and the professionalism of the audit staff. Many of the recommendations of the auditor's office had been implemented prior to the audit. The majority of the remaining recommendations have now been adopted as will be demonstrated in the following responses. The Board is committed to insuring the taxpayer's money is used in a way that is beneficial to the taxpayers as well as the Ozark Fire Protection District and assures our district that the Ozark Firefighters do and will continue in the future to provide competent and professional service to our customers. The Board of Directors has implemented many business accounting practices to review District transactions both at the time expenditures are approved as well as monthly bank statement reviews. Safeguarding records has been accomplished by Resolution appointing a Custodian of Records and keeping records in a secured file room. Supervision of employees is the responsibility of the Chief Executive Officer as appointed by the Board of Directors. By-laws of the District were amended last year to have annual financial audits performed by a CPA firm.

2.	Credit Cards
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Controls over district credit cards are inadequate. Personal items were charged to district credit cards and paid for with district funds by electronic transfer. As a result, felony stealing charges are currently pending against the district's former Administrative Assistant.

The district held seven credit cards, including four VISA credit cards, two discount store credit cards, and one hardware store credit card during 2004 and 2005. We identified numerous personal and questionable charges on district credit cards, and inadequate supporting documentation for most credit card purchases.

1. Numerous charges were made on the district's VISA credit card issued to the former Administrative Assistant that appear to be for personal items. A total of approximately \$26,000 was charged to this credit card between February 20, 2004, (card issue date) and March 4, 2005. The following table is a summary of the charges made to vendors not routinely used by the district that appear to be personal in nature and/or receipts were not retained to verify the charges were district-related:

<u>Category</u>	<u>Amount</u>
Department & Other Retail Stores*	\$ 7,300
Health Care/Beauty Facilities**	4,800
Discount Stores***	2,400
Quick Stops (coffee, snacks and fuel)	800
Springfield City Utilities (personal utility bill)	1,100
Restaurants/Grocery Stores***	1,600
Other****	<u>3,000</u>
Total	\$21,000

* Includes clothing, shoes, household goods, party supplies, and pet supplies.

** Includes charges for hospitals, doctors, veterinary clinics, beauty & tanning salons, spa, etc.

*** Includes items which district officials believe are not district related.

****Includes internet purchases, college fees, liquor store purchases, and other miscellaneous purchases.

Itemized receipts were not maintained for most of these purchases, but some were later obtained directly from the vendor. Several of these purchases were made on the weekend or at locations outside of the local area. Additionally, transactions totaling approximately \$2,150 included in the above amounts were charged on January 26 and 27, 2005 when the time sheet prepared by the former Administrative Assistant reflects sick leave was taken from work.

The remaining \$5,000 charged to the credit card appears to be for vendors often used by the fire district for routine purchases; however, receipts were not retained for approximately \$2,400 of these purchases. Additionally, late fees and finance charges of approximately \$190 were incurred and paid by the district for this card. (See 2. below for additional personal charges that appear to have been made by the former Administrative Assistant.)

There is no evidence in district records that the personal charges to the district's credit card were reimbursed. The former Administrative Assistant terminated employment in March 2005, and this credit card account was subsequently closed. Felony stealing charges are currently pending against the former Administrative Assistant, and the district has settled with their employee bonding company receiving \$16,535.

2. Some charges to the VISA credit card issued to the former Assistant Fire Chief also appear to be for personal use and/or questionable. Examples include approximately \$490 charged for expenses relating to a personal trip to Louisiana, approximately \$170 charged to a Lake Ozark restaurant while on training, and other food charges of approximately \$450 charged at restaurants and grocery stores. Additionally, charges totaling approximately \$330 for beauty products and vehicle repair appear to have been authorized by the former Administrative Assistant and charged to the credit card issued to the former Assistant Fire Chief. Total purchases charged to this credit card between January 2004 and September 2005 were approximately \$4,350.

Reimbursements totaling only \$111 were found to be deposited into the district's bank account for these personal charges. The Assistant Fire Chief was terminated in September 2005 and this credit card account was closed.

3. Most charges made to the VISA credit card issued to the former Fire Chief were not supported by adequate documentation, such as a charge slip or receipt. Approximately \$2,170 was charged to the former Fire Chief's VISA credit card between January 2004 and September 2005, and receipts totaling only \$340 were maintained to support these charges. While most undocumented charges represented vendors that appeared to be for travel expenses related to training, it is unclear whether or not these charges are reasonable. For example, \$105 was charged at a local restaurant with no documentation to indicate how many individuals were served, or the purpose of the expense. The Fire Chief was terminated in September 2005 and this credit card account was closed.
4. The district also maintains two discount store credit cards, and according to the Board President these cards were in the custody of the former Administrative Assistant. Our review of purchases charged to these cards between January 2004 and March 2005 identified numerous questionable and personal charges. Of approximately \$5,700 charged to these two credit cards during this time period, approximately \$830 was for food items (meat, cheese, pasta, bread, butter, fruit, vegetables, salmon, milk, etc.) and approximately \$1,130 was for other questionable items (cookware, ladies clothing, nonprescription medication, greeting cards, gift cards, and alcohol).

According to district personnel, personal items were occasionally purchased for some employees with the district's discount store credit cards and payments were

made by employees to reimburse the district. Reimbursements totaling only \$184 were deposited into the district's bank account relating to these charges.

Electronic payments withdrawn directly from the district's operating account and paid to the credit card companies helped to conceal these inappropriate charges. Approximately \$24,000 was electronically withdrawn from the district's operating account without documentation of Board approval, and paid to the VISA credit card's assigned to the former Administrative Assistant (\$22,266) and former Assistant Fire Chief (\$817), and discount credit card company (\$935). These electronic payments appear to have been initiated by the former Administrative Assistant, and were not always properly posted to the district's accounting records.

As noted in MAR 1 the Fire Protection District Board's lack of oversight has allowed the inappropriate use of district credit cards to go undetected. The Fire Protection District Board has now cancelled all credit cards except for one VISA credit card, one discount store credit card and one hardware store credit card. In October 2005 the Board approved a credit card policy specifying that the personal use of district cards would result in termination; however, the credit card policy does not address issues such as approving purchases before charges are incurred, and maintaining adequate documentation.

WE RECOMMEND the Fire Protection District Board of Directors continue working with law enforcement authorities regarding any criminal prosecution and obtaining full reimbursement of the misappropriated funds. Additionally, the district's credit card policy should require purchases be approved before charges are incurred, and adequate documentation for all purchases. Further, the Board should evaluate the need for all credit card accounts, and cancel any cards which are determined to be unnecessary.

AUDITEE'S RESPONSE

The Board provided the following response:

The Fire District will continue to work with law enforcement on criminal prosecution of the existing criminal cases and will provide law enforcement and/or investigators with any information needed regarding any potential criminal cases that may be filed and will seek full reimbursement of funds. The Board of Directors has a Credit Card and Account Use policy in place which will preclude past practices.

3.

Questionable Transactions

Approximately \$1,630 was electronically transferred from the district's bank account and appears to have been used to cover insufficient fund checks drawn on a personal bank account, and other personal debt. Checks totaling \$439 were written to the former Administrative Assistant without supporting documentation, and wages paid to her did not agree with hours worked reported on time sheets. Further, documentation to support district expenses relating to grant funds is questionable.

A. Between October 2004 and January 2005 six disbursements totaling \$1,630 were electronically transferred from the district's operating account and appear to have been used to cover insufficient fund checks and other personal debt.

- Four electronic disbursements totaling \$883 were paid to "Capital One Collections." According to district officials, the district does not have a Capital One credit card, and has obtained information to indicate that the account number was for a personal credit card account.
- One electronic disbursement totaling \$521 was paid to a check collection agency. The district had documentation to indicate these funds were used to cover fees and insufficient fund checks associated with a personal bank account.
- One electronic disbursement totaling \$226 was paid to "First National Collection Bureau, Inc." This also does not appear to be an official disbursement of the district.

To help conceal these disbursements, the transactions were not posted in the district's accounting records. Documentation concerning these transactions has been turned over to the Christian County Prosecuting Attorney.

B. Several questionable payroll transactions were identified when reviewing the timesheets and payroll records of the former Administrative Assistant. She was paid approximately \$21,000 from January 2004 through March 2005. Some payroll records for 2004 were not retained by the district and copies had to be requested from outside sources. The questionable transactions include:

- The number of hours reported on time sheets prepared by the former Administrative Assistant did not always agree with the number of hours she was paid. Time sheets reporting less than 80 hours worked in a pay period would occasionally have notations indicating that the time not worked would be made up in the future; however, there was no evidence that the time was always worked in subsequent pay periods. For example, for the pay period dated July 12 through July 23, 2004 the time sheet of the former Administrative Assistant reported working only 57.5 hours; however, she was compensated for 80 hours (a 22.5 hour difference). While the Board did not pay the former Administrative Assistant her last payroll check, differences still exist between hours worked and hours paid, and it is questionable whether the compensation paid to her was appropriate.
- In July 2004 the former Administrative Assistant received two payroll checks for her gross salary amount rather than for the net amount with taxes withheld. Instead of reducing her compensation on a future payroll check to adjust for the overpayment, her gross compensation amount for this period was

increased for payroll reporting purposes and the district paid the payroll taxes totaling approximately \$100.

- During November and December 2004 the former Administrative Assistant received three payroll checks computed at fifty cents more per hour than the hourly rate authorized by the Board. The overpayment totaled approximately \$114.
- Some of the former Administrative Assistant's time sheets reflected small amounts of compensatory time used; however, since wages had been paid for time not worked in previous periods as noted above, it is questionable whether or not compensatory time was actually earned. Time sheets reflected a total of approximately 25 hours of compensatory time used.
- A record of accumulated vacation and sick leave was not maintained, and it is not clearly documented by the Board how much vacation and sick leave the former Administrative Assistant was allowed. For example, the former Administrative Assistant was compensated for 32 hours of vacation time in July 2004 and in February 2005. Because adequate documentation was not maintained, it is not clear if compensation for 64 hours of vacation during this time period was appropriate.

Due to various internal control weaknesses including little or no review by someone independent of the former administrative assistant, these questionable payroll transactions were allowed to go undetected.

- C. Four checks totaling \$439 were made payable to the former Administrative Assistant without supporting documentation. Information posted in accounting records indicated the checks were for the reimbursement of district expenses; however, no documentation could be located to support these payments.
- D. Documentation to support fire district expenses relating to Homeland Security grant funds received through the City of Ozark is questionable. Some invoices used as documentation of the equipment purchased with the grant funds appear to be duplicates of other invoices on file at the district. While the total amount billed to the district on each invoice is similar; the type of equipment purchased is different. For example, one invoice showed the purchase of 18 radios costing \$11,268, while another invoice showed what appeared to be the same radios costing only \$7,628 with additional equipment purchased for the difference. It is questionable whether or not the additional equipment was authorized under the grant agreement. An investigation has been performed by the Missouri State Highway Patrol, and information concerning the investigation has been turned over to the Christian County Prosecuting Attorney.

WE RECOMMEND the Fire Protection District Board of Directors:

- A. Continue to work with law enforcement authorities regarding the investigation and criminal prosecution of the unauthorized use of district funds.
- B. Review payroll transactions of the former Administrative Assistant to ensure all compensation was properly earned and authorized.
- C. Investigate the \$439 paid to the former Administrative Assistant.
- D. Continue to work with law enforcement authorities regarding the investigation of the questionable use of grant funds.

AUDITEE'S RESPONSE

The Board provided the following response:

The District will continue to work with law enforcement on criminal prosecution of existing cases and will provide law enforcement and/or investigators with any information needed regarding the unauthorized use of District funds and will seek full reimbursement of such funds. The District will provide the City of Ozark any information or documentation that they may need regarding the questionable use of grant funds. The District will continue to review and access the payroll records and transactions of the former Administrative Assistant for final resolve.

4. Related Party Transaction

During 2005, the district paid a company owned by a board member \$25,254 for labor (\$18,830) and materials (\$6,424) related to construction work which included adding infrastructure to Fire Station #2, and work performed on a mobile home used as temporary housing. The district did not solicit bids or obtain a written agreement for these services. Further, the district did not report these payments on Form 1099-MISC.

Board minutes indicate the board approved the board member's company to perform the work because he would donate some of the materials and not charge the district for the contractor's fee. While the minutes indicated the board member abstained from voting on the issue, the minutes did not specify the work to be performed or indicate an estimate of the total cost of the project.

Additionally, while documentation, such as vendor invoices, was provided to the district to support the material charges of \$6,424, no documentation was provided to support the labor charges of \$18,830. According to contractor invoices the district was charged for 672.5 hours at \$28 per hour. Without adequate documentation, it is unclear if the amount charged for labor is reasonable.

Transactions between the district and board members represent potential conflicts of interest. Section 105.454, RSMo, prohibits financial transactions between a political subdivision and an officer or employee (or spouse, dependent child, or business and corporate interest of the officer or employee) of that political subdivision that involve more than \$1,500 per year or \$500 per transaction unless there had been public notice to solicit proposals and (except for real property) competitive bidding, provided that the bid or offer was the lowest received. Effective August 28, 2005, the threshold for financial transactions between a political subdivision and an officer or employee was increased to \$5,000 per year. Also, district by-laws require bids to be solicited through newspaper advertisement for purchases of \$10,000 or more.

Additionally, the Board should ensure discussions and decisions concerning situations where potential conflicts of interest exist be completely documented so that the public has assurance that no district official has benefited improperly. Further, a written agreement should be obtained, and payments properly reported on Form 1099-MISC. According to documentation provided by the board member, costs totaling approximately \$5,300 were deducted from invoices for donated materials, labor, and contractor fees.

WE RECOMMEND the Fire Protection District Board of Directors refrain from entering into business transactions with district officials unless steps are taken to ensure the district has complied with state law and details regarding the transaction are adequately documented. Further, bids should be solicited in accordance with district by-laws, written agreements should be obtained for services performed, and payments should be properly reported to the IRS.

AUDITEE'S RESPONSE

The Board provided the following response:

The Fire Protection District will follow all applicable Missouri Statutes regarding any and all business transactions. Solicited bids will be kept as part of District records. The Directors have a Bid Policy in place.

5. Accounting Controls and Procedures
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Duties are not adequately segregated, and monthly financial reports reviewed by the Board were not adequate. Additionally, several control weaknesses exist in the handling of cash receipts, petty cash activity is not tracked, bank accounts are not properly reconciled with accounting records, and the numerical sequence of checks is not properly accounted for.

- A. Accounting duties are not adequately segregated. The Administrative Assistant is responsible for all record keeping duties of the fire district. The duties of the current and former Administrative Assistant include receiving and depositing monies, maintaining payroll records, reviewing invoices, preparing and

distributing checks, recording receipts and disbursements, and preparing monthly financial reports and bank reconciliations. Additionally, the former Administrative Assistant signed checks. No personnel independent of the cash custody and record-keeping functions provide adequate supervision or review of the work performed by the current and former Administrative Assistant.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurances that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving, recording, and disbursing monies from that of reconciling accounting records to bank statements. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the bank reconciliations, a reconciliation of receipts and deposits, and a comparison of invoices and disbursements. Had such controls been in place, the misappropriations noted in MAR finding numbers 2 and 3 might have been prevented.

- B. Monthly financial reports provided to the Board by the former Administrative Assistant did not allow for the Board to effectively monitor the financial activity of the district, and the district's accounting records were poorly maintained.
1. The monthly financial reports reviewed by the Board and filed with the board meeting minutes were incomplete, and did not provide adequate information to properly monitor district finances. For example, some months a check register listing checks and deposits along with the ending cash balance was filed with the Board, and other months a profit and loss statement was provided listing revenue and expenses by classification. These monthly reports were incomplete and did not accurately reflect actual receipts, disbursements, and the cash balance of the district. There is no documentation to indicate that the Board requested additional financial information, such as bank statements, to review to ensure these reports were accurate. These inconsistent and incomplete reports did not provide the Board adequate financial information to ensure district funds were being accounted for properly, and as a result, the misappropriations noted in MAR 2 and 3 went undetected.
 2. The district's accounting records contained several questionable entries which were not detected.
 - Three checks for \$461 each issued in October and November 2004, and two checks for \$488 each issued in July and August 2004 were for the payment of the former Administrative Assistant's VISA credit card bill. These duplicate payments were applied toward other charges made to the VISA credit card, and apparently issued to help conceal the inappropriate charges. While these duplicate payments were

posted to the accounting records and included in reports provided to the Board, they were not detected.

- The payee on one check for \$103 issued in January 2005 was different than the payee posted in the accounting records. The accounting records listed a medical supply company as the payee, but the check was issued to a different payee for the purchase of fire district caps.
- Receipts and disbursements were not always posted to the proper revenue or expense classification in the accounting records. For example, \$2,035 disbursed for payroll taxes was posted as property tax revenue in the accounting records. Additionally, \$3,933 in property tax revenue and \$4,802 in insurance proceeds were posted as a reimbursement expense in the accounting records.

C. The Board does not ensure reconciliations between the district's accounting records and the bank statements are performed monthly. As a result, errors and transactions omitted from the District's accounting records have not been detected timely. The district maintains four bank accounts including an operating account, a reserve account, a Muscular Dystrophy Association (MDA) account, and a pop machine account.

1. Numerous differences were noted between the District's accounting records and the bank records between January 2004 and March 2005. Disbursements totaling approximately \$24,000 made from the district's operating account during this time period were not posted to the district's accounting system, and therefore, not included on financial reports provided to the Board by the former Administrative Assistant. Additionally, an adjustment totaling \$4,921 was posted to the accounting records in December 2004 to increase the district's cash balance reported to the Board. There appears to be no reasonable justification for this adjustment. These transactions appear to have helped conceal the misappropriations noted in MARs 2 and 3.
2. Although reconciliations are now being performed by the current Administrative Assistant, these reconciliations are not adequate.
 - The district disbursed two checks totaling \$4,100 to the MDA for donations collected; however, only \$2,500 should have been disbursed. Because of inadequate reconciliations, the district was unaware of this error until we brought it to their attention. The District subsequently requested and received a reimbursement for the overpayment from the MDA.
 - The December 31, 2005 bank reconciliation identified three payroll checks totaling \$2,143 that were not posted to the accounting system,

but cleared the district's bank account. Additionally, another check totaling \$2,047 reflected as clearing the bank account had not, and was later noted as void, but the void was never posted in the accounting system. A \$96 adjustment was posted to the accounting system to balance with the bank statement by the current Administrative Assistant, but because of inadequate reconciliations, she was unaware of what caused the difference until we brought these details to her attention.

Monthly reconciliations between accounting records and bank statements are necessary to ensure accurate accounting and financial reporting and ensure that any errors are detected and corrected on a timely basis. If bank reconciliations had been performed monthly and reviewed by the Board, the misappropriations noted in MARs 2 and 3 might have been detected.

D. Significant weaknesses were identified in the accounting controls over district receipts:

1. Receipt slips are not issued for some monies received. Receipts are only issued by the current Administrative Assistant upon request, or for cash received. Additionally, all copies of the receipt slips were torn out of the receipt book and filed; however some of the receipt slips could not be located in district files. Further, receipt books used by the former Administrative Assistant could not be located by the district.

For example, the District sells permits authorizing the sale of fireworks, and permits authorizing residents to burn in the district. These permits are not numbered and receipt slips are not issued to track these revenues. Accounting records reflect \$840 was received in firework permits during 2004; however, no revenues from firework permits were recorded in 2005, and only \$90 was recorded in 2006. The current Administrative Assistant indicated that she did not know she was suppose to sell permits.

2. Completed receipt slips do not always include all necessary information such as, date, payer, and the method of payment received (cash, check, or money order).
3. Voided receipt slips are not properly defaced and retained. We noted instances where the original copy of the voided receipt slip was not retained, and other instances where the original copy of the receipt slips were not properly voided.
4. Checks are not restrictively endorsed upon receipt. Instead, the endorsement is applied when the deposit is prepared.

5. Receipts are not deposited intact. Cash receipts are withheld from deposits and used as petty cash to purchase miscellaneous office supplies. For example, receipt records indicate approximately \$770 was received from the sale of caps and t-shirts between January 2005 and June 2006; however, deposit records only reflect \$265 was deposited into the District's bank account for the sale of these items. District personnel believe the remaining collections were used for petty cash expenses. (See part C below.)
6. Receipts are not always kept in a secure location until deposited. While the Administrative Assistant indicated that receipts are normally locked away until deposited, we noted checks payable to the district located on top of a desk.

As a result of these significant weaknesses over cash receipts, there is no assurance that all cash received by the district was accounted for properly. A cash count performed on May 23, 2006 identified cash and checks totaling \$542; however, because of the weaknesses noted above, these monies could not be agreed to receipt records. To adequately safeguard receipts and reduce the risk of loss or misuse of funds, adequate controls should be put in place to account for all monies received by the district.

- E. The District's petty cash fund is not maintained on an imprest basis, and a petty cash ledger is not maintained to track activity of the fund. Prior to May 2005, no records documenting petty cash activity could be located by the District, and records maintained after May 2005 were inadequate and incomplete.

As noted above cash receipts from the sale of permits, t-shirts, and caps are placed in the petty cash fund rather than being deposited; however, because all receipt slips are not accounted for and a petty cash ledger is not maintained, the amount of cash receipts placed in the petty cash fund is not determinable. In addition to cash receipts, district checks totaling approximately \$2,300 were written between May 2005 and May 2006 to replenish the petty cash fund. Paid vendor invoices maintained by the Administrative Assistant totaled approximately \$2,600 during this time period.

To ensure all receipts and disbursements into the petty cash fund are proper, the fund should be maintained on an imprest basis, meaning the fund should be maintained at a constant predetermined balance, and the cash on hand plus the total of all paid invoices should always equal the predetermined balance. The fund should only be reimbursed by district checks equal to the amount of paid invoices. In addition, the District should maintain a petty cash ledger to track activity in and out of the fund.

- F. Check numbers are not accounted for properly, and voided checks are not always defaced and retained. There were numerous instances where check numbers were

apparently deleted from the accounting software system. Some checks cleared the district's bank account, while others did not. The current Administrative Assistant indicated that in most instances she intended to void the check, but deleted it in error, eliminating the audit trail.

To properly account for all disbursements, the numerical sequence of all checks should be accounted for, and void checks should be defaced and retained.

WE RECOMMEND the Fire Protection District Board of Directors:

- A. Provide for adequate segregation of duties, or at a minimum, establish procedures for an adequate independent review of the record keeping functions.
- B. Ensure complete and detailed financial reports are reviewed monthly, and review questionable entries posted to the accounting records to ensure they are proper.
- C. Ensure bank reconciliations are performed and documented monthly. Additionally voided checks should be defaced and retained by the district, and properly reflected as void in the accounting software system.
- D.1. Issue prenumbered receipt slips for all monies received, account for the numerical sequence of all receipt slips, retain one copy of the receipt slip intact in the receipt book, and retain all receipt books for audit purposes.
 - 2. Ensure receipt slips are properly completed with all necessary information.
 - 3. Ensure voided receipt slips are properly defaced and retained.
 - 4. Ensure checks are restrictively endorsed immediately upon receipt.
 - 5. Ensure all receipts are deposited intact, and the composition of receipt slips is reconciled to the composition of bank deposits. Additionally, all financial activity should be posted to the district's computerized accounting system.
 - 6. Ensure all district receipts are kept in a secure location until deposited.
- E. Ensure the petty cash fund is maintained on an imprest basis and a log of all petty cash activity is maintained.
- F. Ensure the numerical sequence of all checks is accounted for, and voided checks are properly defaced and retained.

AUDITEE'S RESPONSE

The Board provided the following response:

The Fire District has implemented business accounting practices to adequately review accounting concerns. Unfortunately, segregation of the Administrative Assistant's duties cannot be achieved at this time due to lack of staff. However, the supervision of accounting by the Administrative Assistant and independent review of records is the responsibility of the Chief Executive Officer and Board of Directors in that respective order.

6. Expenditures

The district's current bidding procedures could be made more effective by adopting a comprehensive bid policy. The district has not solicited proposals or entered into a written agreement for legal services. In addition, the district's procedures for reviewing and approving invoices for payment are in need of improvement, and some district expenditures did not appear to be a necessary or prudent use of public funds.

- A. The district's bidding procedures described in the by-laws could be made more effective by adopting a more comprehensive policy with a lower dollar limit, and including a requirement to solicit proposals for professional services. District by-laws require bids be solicited through advertisement for expenditures projected to be \$10,000 or greater for construction or purchase contracts. However, the by-laws do not require bidding or indicate the types of bidding that can be done to ensure the district receives the best economical value on its purchases for amounts less than \$10,000. Additionally, the by-laws specifically exclude the professional services of engineers and attorneys from the bidding requirements.

While bids are occasionally solicited for purchases, there is no evidence that the district routinely solicits bids. The following are examples of individual purchases for which the district did not solicit bids, or retain bid documentation.

<u>Vendor</u>		<u>Amount</u>
Fire Apparatus	\$	7,249
Electrical Work		5,709
Repairs		5,352

District personnel indicated they often compare prices; however, there was no documentation of price comparisons for the above items. Additionally, as noted in MAR 4, the Board failed to follow their by-laws when paying \$25,254 to a construction company owned by one board member, and district officials indicated that the electrical work noted above was a subcontractor hired by the construction company owned by the board member during the construction. Further, the district paid attorney fees totaling approximately \$12,500 during 2005

without soliciting proposals for these services or obtaining written contracts outlining the services to be provided and the cost.

Although state law does not require a more comprehensive bid policy for fire protection districts, state law does require bidding for the state and various other local governments at levels as low as \$4,500. Without formal bidding, there is no evidence the district received the lowest price and best service. A more comprehensive policy would require bidding and would identify specific bidding procedures that are required for purchases under \$10,000. Bids could be handled by telephone quotation, sealed bids or advertised sealed bids. Different approaches may be appropriate, depending on the dollar amount of the purchase. Additionally, requiring the solicitation of proposals for professional services helps provide a range of possible choices and allows the district to make a better-informed decision to ensure necessary services are obtained from the best qualified vendor at the lowest and best cost. Further, written contracts are necessary to ensure all parties are aware of their duties and responsibilities, and to prevent misunderstandings.

B. The district does not have adequate controls in place to ensure all disbursements, including credit card purchases, are proper.

1. Disbursements are not properly reviewed and approved prior to payment. The former Administrative Assistant was responsible for reviewing and processing payments, including signing checks; however, no one independent of this process reviewed invoices or reconciled credit card purchases to credit card statements prior to payments being made.

Our review of 16 disbursements during 2004, 2005, and 2006 found no evidence to indicate the Board had properly reviewed and approved these invoices before payment was made. Although district personnel indicated that purchases are now approved prior to payment through the district's new purchase order system, the purchase orders are not signed to document the approval of the disbursement.

2. Supporting documentation was not retained or available for 27 of the 52 expenditures we reviewed during 2004 and 2005, totaling approximately \$56,000. This amount includes training related expenses totaling \$7,580 (see MAR 8), award banquet expenses totaling \$3,841 (see part C. below), and equipment repair and maintenance totaling \$9,063. Additionally, the fire district did not maintain all receipts relating to credit card purchases and was missing several credit card statements (see MAR 2). At our request supporting documentation was obtained directly from vendors for some disbursements.

3. Invoices are typically not marked paid or otherwise cancelled, and receipt of goods or services is rarely indicated on the invoice prior to payment.

To ensure all disbursements represent valid operating costs of the fire district, all disbursements should be supported by detailed invoices that are reviewed and approved by the board before payment is made. To adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, and signed or initialed by the Board. Additionally, canceling invoices and all other supporting documentation reduces the possibility of duplicate payments, and documentation of the receipt of goods or services is necessary to ensure the district actually received the items or services being paid.

The poor controls over district disbursements allowed for the misappropriations noted in MARs 2 and 3 to occur and not be detected.

C. District funds were used for several disbursements that do not appear to be necessary operating expenses of a fire protection district.

- The fire district used public monies to fund annual awards banquets held in January 2006, 2005, and 2004 at a cost of \$2,333, \$4,105, and \$2,864 respectively. The expenses associated with these banquets included, disc jockey services, karaoke entertainment, flowers, award plaques, food, cakes, and centerpieces.
- In December 2005 and 2004, the district spent \$440 and \$1071, respectively, for turkeys and hams provided to the employee and volunteer firefighters.
- In December 2004 the Board approved \$500 of district funds to be used to donate to families in need at Christmas; however, documentation was not maintained to indicate the amount of district funds used for this purpose.
- There were several instances where district funds were used to purchase alcoholic beverages at restaurants and liquor stores. The fire district currently has no written policy stating that alcoholic beverages will not be reimbursed.
- The district incurred late fees and interest charges totaling at least \$307 on the district's credit cards, and several other vendor invoices also had late fees assessed.
- The district pays \$180 annually for membership fees of a local discount store for six officers and employees. It is not clear why six membership fees are necessary.

These expenditures do not appear to be a prudent use of public funds. The district's residents have placed a fiduciary trust in their public officials to spend tax revenues in a necessary and prudent manner. The Board should ensure fire district funds are spent only on items which are necessary and beneficial to the district.

WE RECOMMEND the Fire Protection District Board of Directors:

- A. Adopt a more comprehensive bid policy which requires bidding and establishes bidding guidelines for expenditures. Such bid policies should include criteria on how bids are to be solicited and when formal advertising should be used. Documentation of bids received and the bid process should be retained. If sole source procurement is necessary, the district should retain documentation of these circumstances.
- B. Ensure all disbursements are approved by the Board prior to payment, and the approval process is adequately documented. Additionally, ensure supporting documentation is maintained for all disbursements, all invoices are properly canceled after payment is made, and all invoices are initialed or signed by a district employee to indicate acceptance of the goods or services.
- C. Ensure all expenses are a necessary and prudent use of fire district funds.

AUDITEE'S RESPONSE

The Board provided the following response:

The Board of Directors now has a more comprehensive Bid Policy in effect. The Board is now reviewing and approving all district expenses, and will ensure district funds are used appropriately.

7. Payroll and Personnel Matters

Controls over payroll need improved. Payroll duties are not adequately segregated, time sheets are not signed by the employees or supervisors, and retroactive pay increases were granted to employees. In addition, a formal written policy for vacation, and sick leave has not been established for nonunion employees. Timesheets were not prepared by the former Fire Chief, and actual time worked is not always documented on time sheets prepared by firemen. Further, improvement is needed over the district's procedures for reporting compensation to the IRS.

- A. Payroll duties are not adequately segregated to provide the necessary internal controls over the payroll function. The district's Administrative Assistant handles all payroll duties including preparing, calculating, and distributing payroll checks, recording payroll transactions, distributing employee W-2s, and maintaining the personnel files. In addition, there is no documentation to indicate that payroll transactions are approved by the Fire Protection District Board. While the current Fire Chief and Board indicated that they review payroll reports prepared by the Administrative Assistant; they do not document their review. Had such controls been in place, the questionable payroll transactions identified in MAR 3 might have been detected.

A proper segregation of duties provides a means of establishing control over assets, thus minimizing the risk of loss, theft, or misuse of funds. If segregation of duties is not possible, the comparison of the payroll disbursements to the payroll register and employee timesheets by an independent individual would provide another supervisory review to minimize the risk of loss, theft or misuse of funds. The district's current lack of review procedures over payroll continues to allow the potential for misuse of funds.

- B. Timesheets are not signed by employees and their supervisors, and the former Fire Chief did not prepare a timesheet to document hours actually worked. While district personnel indicated timesheets are reviewed for accuracy, this review is not documented. To document hours actually worked and substantiate payroll expenditures, timesheets should be prepared and signed by all district employees and include documentation of supervisory approval.
- C. The district has not established a formal written policy for vacation, and sick leave for nonunion employees, and vacation and sick leave balances reported on individual employee pay stubs did not always agree with accumulated leave records. While nonunion employees of the fire district earn leave, the district does not have a written policy addressing the rate at which leave is earned, when it can be used, etc. Additionally, when we compared leave balances reported on employee pay stubs for June 2006 to the cumulative leave record, some amounts did not agree. Although differences were small in amount, the district should take steps to ensure leave balances for employees are accurately tracked.

Complete and detailed written policies are necessary to provide guidance to district employees and provide a basis for proper compensation. In addition, leave balances reported on employee pay stubs should periodically be compared to centralized leave records to ensure they are in agreement.

- D. Time sheets prepared by firemen do not always indicate actual hours worked. The district allows firemen to trade time, allowing one fireman to work the scheduled shift of another fireman who will in turn work another shift at a later time. Traded time is not reflected properly on time sheets. The originally scheduled work time is posted to the time sheets by the firemen rather than the actual time worked.

The Fair Labor Standards Act (FLSA) requires employers to keep accurate records of actual time worked by employees. To properly support payroll disbursements, time records should accurately reflect the time worked by each employee.

- E. Improvement is needed over the district's procedures for reporting compensation to the IRS.

1. Forms 1099 Miscellaneous were not always issued as required, and some of the amounts reported on the forms were not accurate. During 2005 the district reported payments totaling \$1,150, \$880, and \$610 to three volunteer firemen on Form 1099; however, accounting records indicate that actual payments totaled \$1,290, \$985, and \$650 respectively. Additionally, four other volunteer firemen and the district's attorneys should have been issued Form 1099 since payments to them exceeded \$600.

Sections 6041 and 6051 of the Internal Revenue Code require payments of at least \$600 or more in one year to an individual for professional services or for services performed as a trade or business by nonemployees (other than corporations) be reported to the federal government on Form 1099. Further, procedures should be in place to compare amounts reported on Form 1099 to accounting records to ensure their accuracy.

2. The district failed to file the Employer's Quarterly Federal Tax Return (Form 941) on a timely basis for the tax periods March 31, 2004 and December 31, 2003, resulting in \$494 in late reporting penalty charges and interest.

The Internal Revenue Code requires employers to submit Form 941 on a quarterly basis.

3. Payroll and accounting records are not properly reconciled with amounts reported on Forms W-2, W-3, and quarterly wage reports. As a result, some employees' wages were incorrectly reported and payroll taxes were underpaid without being identified by the district.

- During 2005 three payroll checks totaling \$2,143 were issued but not properly posted in the district's accounting records. As a result of these and other errors, payroll amounts recorded in the district's records do not agree with amounts reported on Forms W-2, W-3, and quarterly wage reports.
- Wages totaling approximately \$5,700 paid in October 2004 were not included on the fourth quarter 2004 wage reports filed with the state and federal authorities resulting in the underpayment of federal and state payroll taxes by approximately \$1,000. These wages were also not included in annual totals reported to employees on Forms W-2 for 2004.

These discrepancies could have been identified if adequate reconciliations had been performed between payroll and accounting records and bank records as similarly noted in MAR 5. The failure to reconcile payroll records increases the risk that errors or irregularities will occur and not be

detected on a timely basis. The district should contact the IRS concerning the differences identified above.

- F. The Board of Directors grants retroactive pay increases to employees. Upon approval of pay increases the board retroactively increases pay to the employees' six month anniversary date for salaried employees or the last pay period for hourly employees. For example, in October and December 2005, two employees received retroactive pay increases totaling \$161, and in January and March 2006 two additional employees received retroactive pay increases totaling \$269.

Article III, Section 39 of the Missouri Constitution prohibits political subdivisions from granting additional compensation for services already rendered. Although the amounts of the individual retroactive raises were not significant, this practice is prohibited.

- G. Procedures are not in place to ensure employee payroll checks are adequately secured after they are written. Additionally, the district does not require written authorization from the employee prior to distributing payroll checks to someone other than the employee. Payroll checks not given directly to the employee are placed in unsecured employee mailboxes, or given to family members. Payroll checks should be adequately secured until distributed to the employee. If the employee authorizes his or her payroll check to be given to a family member, this authorization should be in writing.

WE RECOMMEND the Fire Protection District Board of Directors:

- A. Adequately segregate duties involving payroll transactions, or at a minimum, ensure a documented supervisory review of the reconciliation between timesheets and payroll records is performed.
- B. Ensure all employees prepare timesheets and all time sheets are signed by both the employee and the employee's supervisor.
- C. Establish a written leave policy for nonunion employees, and periodically compare leave balances reported on pay stubs to centralized leave records to ensure they are in agreement.
- D. Require all employees to complete time sheets which report actual hours worked.
- E. Ensure 1099 forms are issued in accordance with IRS regulations, and amounts reported are compared to accounting records to ensure their accuracy. Additionally, ensure forms 941 are filed timely and payroll and accounting records are reconciled with amounts reported to the state and federal authorities. Any payroll reporting errors identified should be corrected, and unpaid payroll taxes should be submitted to the proper authorities.

- F. Discontinue granting retroactive pay increases.
- G. Establish procedures to ensure payroll checks are adequately secured until distributed to employees. Additionally, written authorization should be obtain prior to distributing payroll checks to someone other than an employee.

AUDITEE'S RESPONSE

The Board provided the following response:

The current Chief Executive Officer has implemented Employee Policies and supervision of payroll issues and transactions that have been approved by the Board of Directors. Monthly financial records continue to be reviewed by the Board of Directors. Audits will be conducted annually .

8. Travel and Training

The Board has not effectively monitored travel and training expenses, and has not followed their established policies. Additionally, documentation was not maintained for most training expenses, and the district's policy does not provide guidelines to determine when lodging costs should be reasonably incurred.

- A. Three checks totaling approximately \$2,200 were made payable to "cash" between January 2004 and March 2005 for the purpose of providing cash advances to firemen for meal expenses relating to training. These three checks were endorsed by the former Administrative Assistant and cashed. While district policy states that personnel will be reimbursed for meal expenses based on actual costs of meals up to \$50 per day, fire district personnel indicated that firemen were given \$65 cash for each training day. However, supporting documentation was not maintained to indicate who the cash was provided to or how much cash each fireman actually received. Additionally, meal receipts totaling only \$429 (including \$30 in alcoholic beverages) were provided to support how the \$2,200 was used.
- B. District policy indicates that in the event personnel do not successfully complete a training event, the district will be reimbursed for any costs paid in advance by the district. In at least one instance fire district personnel did not attend or complete a training event for which the district paid approximately \$200, but no reimbursement was received. Subsequent to our review the fire district board approved the Administrative Assistant to attempt to collect this amount.
- C. Invoices were not retained for most registration fees and lodging paid directly by the district. Due to inadequate documentation it was not determinable who the attendees were at some training events. At our request documentation was subsequently obtained by the district from the hotel hosting the training; however,

the available documentation was limited. Original invoices or other supporting documentation is necessary to ensure that disbursements are for legitimate purposes.

- D. In two instances fire district personnel extended their stay at the hotel hosting the training event beyond the days necessary to complete the training, resulting in additional cost to the district of \$150 and \$126. Additionally, the district paid approximately \$500 for fire department personnel to stay in a hotel less than 30 miles from Ozark to attend training. No documentation was maintained to justify the extra night stays, or the need to have personnel incur lodging costs in a location within commuting distance. The district's policy does not provide guidelines to determine when lodging costs should be reasonably incurred by the district.

To ensure training and travel costs are adequately controlled the district should comply with their written policy by reimbursing documented travel expenses rather than providing cash to personnel in advance of the trip, and by obtaining reimbursement for all costs associated with training not completed. Additionally, training and travel costs should include only those costs which are reasonable and necessary, and documentation should be maintained to support all expenses. Further, the district should amend their travel policy to provide guidelines to determine when lodging costs should be incurred by the district.

WE RECOMMEND the Fire Protection District Board of Directors comply with district policy by reimbursing documented travel expenses rather than providing cash to personnel in advance, and consult with firemen to ensure the appropriate amount of cash was received by each one attending training. Additionally, reimbursement should be obtained for all costs associated with training not completed. Further, only reasonable and necessary training costs should be incurred, adequate documentation should be maintained, and guidelines should be provided to determine when lodging costs should be incurred by the district.

AUDITEE'S RESPONSE

The Board provided the following response:

The current Chief Executive Officer has implemented Employee Policies regarding travel expenses and training that have been approved by the Board of Directors. The District will take action as necessary for reimbursements due the District. No unauthorized travel or expenses will be allowed or paid.

9. District Policies and Procedures
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Audits of financial records were not obtained as required by district by-laws, a written agreement is not maintained with the depository bank, and adequate records are not

maintained to ensure firemen comply with district training policies. Additionally, the district does not have a written policy regarding cell phones, maintain vehicle mileage and maintenance logs, and adequately track fuel purchases. Further, the district's policy to charge individuals living outside the district for emergency services needs clarification.

- A. The district board members have not taken steps to ensure district operations are in agreement with the district's by-laws. For example, the by-laws indicate that biennial audits of the district's financial records for the previous two fiscal years shall be conducted, and shall begin in 2001 with audits of fiscal year 2000 and 1999. The district's financial records had not been audited until 2006 when the board contracted for an audit of the year ending December 31, 2005. Additionally, on December 20, 2005 the Board approved amending the district's by-laws to require an audit after the close of each year; however, the by-laws had not been updated with this change until we brought this matter to the district's attention.

The district should abide by its by-laws and ensure by-laws are promptly updated for changes approved by the Board.

- B. The district does not have a written agreement with its current depository bank. A written depository contract helps both the bank and the district understand and comply with the requirements of any banking arrangement. The contract's provisions should include, but not be limited to, collateral security requirements; any bank fees for check printing, checking account services, and safe deposit boxes; interest charges on any borrowed funds; and interest rates for invested funds. Additionally, the contract should specify the required number of signatures on checks, and procedures for authorizing electronic transfers from the district's accounts.

- C. Adequate records were not maintained to ensure all firemen complied with district policies. District Policy Number 17 requires all firemen to have 45 hours of training prior to responding to any incident, and Policy Number 18 establishes levels of participation required by personnel to maintain active status.

The district's records were not always up to date, and documentation of training had to be obtained directly from the firemen in some instances. Additionally, the district does not track meeting participation to ensure Policy Number 18 is followed. The district should maintain adequate documentation to ensure policies are followed.

- D. The fire district has not developed a formal written policy regarding cellular phone usage, or guidelines to determine whether a cellular phone is needed or of benefit to the fire district. Currently, the Fire Chief, Administrative Assistant, and Shift Supervisor have cellular phones. According to fire district personnel, personal calls are allowed during off-peak hours (after 6:00 p.m. on weekdays and any time on weekends). The current phone package used by the fire district has

three phones with 1500 shared peak minutes and unlimited minutes for nights and weekends.

Although personal calls are permitted after 6:00 p.m., there were numerous instances where personal calls were made during peak hours. For example, during one month 40 percent of the peak minutes used for one phone was for personal calls. Even though these minutes are included in the district's plan, the amount of personal usage appears questionable.

A formal written policy regarding cellular phone usage should be developed, and the usage should be monitored to ensure compliance with district policy. The district may want to consider prohibiting the personal use of cellular phones, except in case of emergency. During the year ended December 31, 2005 and 2004, the fire district paid \$2,321 and \$2,067 respectively for cellular phones.

- E. Vehicle mileage and maintenance logs were not always maintained, and fuel purchases are not adequately tracked. The fire district maintained mileage logs periodically during 2005; however, no logs were maintained between January through July 2006. In July 2006 the district once again began maintaining mileage logs, but maintenance logs are not maintained documenting the type of maintenance performed on each vehicle. Additionally, the mileage logs do not always document when fuel is purchase, or the amount of fuel purchased. While charge receipts are maintained each time fuel is purchased, these receipts do not always indicate what vehicle was fueled.

Mileage and maintenance logs are necessary to document the appropriate use of vehicles and to support fuel and other charges. Information on the logs should be periodically reconciled to applicable expenditure records to help identify and prevent inappropriate fuel purchases or other maintenance and operating charges. Fuel purchased during the years ended December 31, 2005 and 2004 was \$12,613 and \$5,177 respectively.

- F. In December 2005 the Board approved an ordinance authorizing the district to charge individuals who reside outside of the district but receive emergency services within the boundaries of the fire protection district. Since this date the district has only charged one individual for this service, and received \$150 from the individual's insurance company. According to district personnel, the district has not been charging individuals who live in neighboring districts; however, the resolution passed by the Board does not indicate that these individuals are exempt. Additionally, the district has not tracked the amount of fees waived for individuals living in neighboring districts. If the Board has determined that charges should not be assessed to individuals from neighboring districts, the Board should consider amending the ordinance to reflect this exclusion.

WE RECOMMEND the Fire Protection District Board of Directors:

- A. Ensure current operations comply with the adopted by-laws, and by-laws are updated promptly for any changes approved by the Board.
- B. Enter into a depository agreement with its depository bank.
- C. Maintain adequate documentation to ensure district policies are followed.
- D. Develop a formal written policy regarding the use of cellular phones, and consider a provision prohibiting their use for personal reasons.
- E. Require mileage and maintenance logs be maintained for all fire district vehicles, and document each time fuel is purchased for the vehicle.
- F. Consider amending the ordinance to exclude individuals living in neighboring districts from being charged for emergency services if the Board intends not to charge these individuals.

AUDITEE'S RESPONSE

The Board provided the following response:

The Board of Directors updates their adopted by-laws as they are approved. The Depository Agreement is currently in the review process and is expected to be completed prior to the end of the fiscal year. The current Chief Executive Officer has implemented a Cellular Use Policy that has been approved by the Board of Directors. Mileage and maintenance logs are kept on file at the District Headquarters. Fuel receipts are maintained with the Accounts Payable records. The Chief Executive Officer now reviews mileage and maintenance logs, and fuel receipts for reasonableness. The Board of Directors have amended their current Ordinance #1220-05-1 to exclude charging persons that live in current Mutual Aid Districts.

10. Budgetary Procedures

The annual budgets approved by the Board of Directors do not include all the necessary information as required by state law. Additionally, during 2005 the district approved expenditures in excess of the budgeted amount by \$80,754.

- A. The budgets approved by the board only include anticipated revenues and expenditures. The district's budgets do not include the beginning cash balance, the projected ending cash balance, a comparative statement of actual or estimated receipts and disbursements for the two previous years, or a budget message.

Section 67.010, RSMo, requires each political subdivision to prepare an annual budget, and Sections 67.010 to 67.080, RSMo, set specific guidelines for the

format, approval, and amendment of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool, and is necessary to inform the public of specific cost and revenue expectations for district operations.

- B. The district approved expenditures in excess of the budgeted amount by \$80,754 for the year ended December 31, 2005. While the Board receives periodic reports comparing actual revenues and expenditures to budgeted amounts, their procedures are not effective in monitoring the annual budget.

The budget process provides a means to allocate financial resources in advance. Failure to adhere to the expenditure limits imposed by the budgets weakens the effectiveness of this process. Section 67.080, RSMo, provides that no expenditure of public monies shall be made unless it is authorized in the budget. Section 67.040, RSMo, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. The district should ensure that budget to actual comparisons are received and reviewed prior to approving expenditures.

WE RECOMMEND the Fire Protection District Board of Directors:

- A. Ensure annual budgets contain all required information, including the beginning and projected ending cash balances, a comparative statement of actual receipts and disbursements for the two previous years, and a budget message.
- B. Periodically compare actual revenues and expenditures with budgeted amounts to help ensure expenditures do not exceed the amounts approved in the budget. If circumstances require expenditures in excess of amounts budgeted, a formal resolution should be adopted authorizing the additional expenditures and documenting the reasons for such.

AUDITEE'S RESPONSE

The Board provided the following response:

The Board of Directors has taken steps to ensure all pertinent information will be included in the budget. The Board of Directors reviews the yearly budget on a monthly basis and will adopt a resolution to amend any budget revenues and/or expenditures before the end of the fiscal year.

11.

Board Meeting Minutes

The Fire District Board frequently held closed meetings but did not always maintain minutes to document matters discussed in those meetings. In addition, minutes were not always signed by the Board Secretary and the Board President, and did not always include sufficient detail of matters discussed or actions taken by the board.

- A. The board conducted several closed meetings during the years ended December 31, 2005 and 2004; however, minutes of closed meetings were not maintained until May 2005. Additionally, the Board discussed giving turkeys to employees and volunteers for Christmas during one closed meeting in December 2005. This does not appear to be an allowable topic under the law.

Section 610.020, RSMo, requires closed meeting minutes to document and record official board decisions and actions affecting the fire district. Additionally, Section 610.021, RSMo, allows the board to discuss certain subjects in closed meetings, including litigation, real estate transactions, bid specifications and sealed bids, personnel matters, and confidential or privileged communications with auditors. The Board should restrict the discussion in closed sessions to the specific topics listed in Chapter 610 of the state statutes.

- B. The board minutes are prepared by the Board Secretary, but the minutes are not signed by the President of the Board, and are not always signed by the Board Secretary. Although board meeting minutes reflect that the minutes from the previous meeting are read and approved, the minutes should be signed by the Board President to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings, and minutes should be signed by the Board Secretary as preparer.

- C. Minutes prepared to document open board meetings did not always include sufficient details of matters discussed or actions taken at board meetings. Also, the minutes did not always include how each board member voted on a motion. For example:

1. The August 24, 2004 minutes indicate the Board approved the purchase of a fire truck for \$265,000 with no record of how each individual member of the board voted.
2. In September 2005, the Board approved the use of a specific computer company to examine the district's computers for possible misuse; however, the district subsequently paid two computer companies for this service. According to the Board President the district used two computer vendors because of the technical issues involved in the search; however, the board minutes do not document the Board's discussions or their approval to use more than one vendor for this service.

Complete and accurate minutes provide an official record of board actions and decisions. In addition, Section 610.020, RSMo, states that "the minutes shall include the date, time, place, members present, members absent, and a record of votes taken."

WE RECOMMEND the Fire Protection District Board of Directors:

- A. Maintain minutes of all closed meetings, and ensure only allowable, specified subjects are discussed in closed session as required by state law.
- B. Ensure board minutes are signed by the Board Secretary as preparer, and by the Board President to attest to their completeness and accuracy.
- C. Ensure all significant discussions, actions taken, and a record of votes taken, as required by state law, are included in the minutes.

AUDITEE'S RESPONSE

The Board provided the following response:

The current Board Secretary signs all board minutes. The Board President will sign all board minutes upon approval. Board Secretary will keep closed session minutes and discussions in a separate records book.

12.

Capital Assets

The fire district has not prepared and maintained a permanent detailed record of the property owned by the district.

The fire district's independent auditor compiled a list of assets when conducting the district's audit for the year ending December 31, 2005. The fire district does not tag or otherwise identify fixed assets as property of the district, and has not performed a physical inventory of district property. Additionally, district records indicate that some employees were terminated as a result of their improper use of city assets. According to the district's audit report, assets totaling \$1,773,621 (\$1,295,830 for vehicles and equipment, \$477,791 for land and buildings) are held by the district.

Complete and accurate property records are necessary to secure better internal control over fire district property, provide a basis for determining proper insurance coverage, and provide assurance to the public that assets purchased with fire district monies are being utilized by the fire district. Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. Additions should be reconciled to purchases annually. Physical inventories are necessary to ensure the property records are accurate, identify any unrecorded additions and deletions, detect theft of assets, and identify obsolete assets. Pre-numbered tags, when affixed to property items, allow for identification of property in the records and may deter the potential for personal use of fire district assets.

WE RECOMMEND the Fire Protection District Board of Directors maintain property records for all district assets. Additions to the property records should be reconciled to

purchases annually, and pre-numbered inventory tags that label each item as "Property of Ozark Fire Protection District" should be added to the district's property listing.

AUDITEE'S RESPONSE

The Board provided the following response:

The current Chief Executive Officer has compiled a numbered inventory list and record of District properties.

HISTORY, ORGANIZATION AND
STATISTICAL INFORMATION

OZARK FIRE PROTECTION DISTRICT
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Ozark Fire Protection District, Christian County, Missouri, is a fire district established pursuant to Chapter 321, RSMo. The Ozark Rural Fire Protection District was organized in 1984. In August 2004 voters approved consolidating with the City of Ozark Fire Department and became the Ozark Fire Protection District. It covers approximately 110 square miles in Christian County, Missouri and has four fire stations.

An elected board acts as the policy-making body for the district's operations. The board's three members serve 6 year terms without compensation. Starting in 2007, the fire district will go to a five member board. Members of the board during the year ended December 31, 2005, were:

Fire District Board	Dates of Service During the Year Ended December 31, 2005		
Teresa Christensen, President	January-December		
William C. McKnabb, Jr., Vice President	January-December		
Steve Young, Treasurer	January-March		
Tim Garrett, Treasurer	April- September		
Stephanie Regan, Treasurer	October -December		
Other Principal Officials	Dates of Service During the Year Ended December 31, 2005	Compensation Paid for the Year Ended December 31, 2005	
Jacob Archer, Fire Chief (1)	January-September	\$ 32,566	
Troy Bowlin, Fire Chief	September-December	0	
Chris Heslip, Assistant Fire Chief (2)	January-September	22,175	
Stacey Scrivener, Administrative Assistant (3)	January-March	3,878	
Diana Nelson, Administrative Assistant	May-December	12,234	

- (1) Jacob Archer's employment was terminated in September 2005. Troy Bowlin was appointed interim fire chief with no compensation. Gordon Dipple became the fire chief in March 2006 at an annual salary of \$50,000.
- (2) Chris Heslip's employment was terminated in September 2005, and Troy Bowlin became the assistant fire chief in June 2006 with no compensation.
- (3) The Administrative Assistant position was vacant during April 2005.

The district employs approximately eight full-time employees and one part-time employee, including a fire chief, an administrative assistant, one data entry clerk and six firemen. At December 31, 2005, the district had 30 volunteer firefighters.

Assessed valuations and tax rates for 2005 and 2004 were as follows:

ASSESSED VALUATIONS	<u>2005</u>	<u>2004</u>
Real estate	\$ 239,255,354	\$ 197,698,876
Personal property	<u>48,872,519</u>	<u>47,557,447</u>
Total	<u><u>288,127,873</u></u>	<u><u>245,256,323</u></u>

TAX RATE PER \$100 ASSESSED VALUATION:

General Fund	\$ 0.2188	\$ 0.2300
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The district entered into a ten year lease payable agreement dated November 1, 2004 for refinancing of \$1,100,000 at 3.5 percent interest. The refinancing included the payoff of the loan from the "The Public Funding Corporation of the Ozark Fire Protection District," and to purchase land and fire apparatus. The Public Funding Corporation was established to borrow funding for the rural fire district. The lease payable balance at December 31, 2005 was \$982,733.

During 2005, the District entered into a lease payable agreement for \$679,000 with Commerce Bank, N.A. to construct, renovate and equip fire station facilities. As of December 31, 2005 the construction of a new fire house was not complete and the district had only received \$49,997 of the lease proceeds. The lease payment of \$54,438 is due October 18, 2006.