



STATE OF WYOMING

DEPARTMENT OF AUDIT

PUBLIC FUNDS DIVISION

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April 4, 2014

Board of Trustees
C/O Riley McNamar, Board President
Laramie County Fire District #6
PO Box 103
Burns, WY 82053

Dear Mr. McNamar:

We are issuing this audit report pursuant to the requirements of Wyoming Statute 9-1-507. This statute authorizes the Department of Audit to audit Special Districts. The District submits the Survey of Local Government Finances (Census Report) providing financial information to the Department of Audit each fiscal year in accordance with Wyoming Statute 9-1-507(a)(vii).

Objective: The purpose of our audit was to determine if Laramie County Fire District #6 was in compliance with Wyoming State Statutes as they relate to our objectives in the specific sections below and to verify the accuracy of the Census Report.

Scope and Methodology: We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of the audit was from July 1, 2012 to June 30, 2013. We interviewed the president, treasurer and bookkeeper from Laramie County Fire District #6. The following lists of tests were performed during the performance of the audit.

- Compared Census Report revenues to the County Treasurer distribution reports and interest from the bank and WYO-STAR statements
- Traced selected other revenues in the Census Report from receipting to bank deposits
- Vouched selected expenditures in the Census Report to supporting documentation and District Board approval
- Performed a bank and WYO-STAR verification
- Reviewed State Statutes relating to Laramie Fire District #6 to ensure the District was adhering to those statutes
- Reviewed the internal controls and computer controls

Based on the procedures identified above, several possible violations of the Constitution or Federal Regulations were identified. These violations and additional findings are presented in the accompanying summary of findings and recommendations.

This report is intended solely for the use of District management and the specified users listed; however, this report is a matter of public record and its distribution is not limited.

Public Funds

Public Funds

cc: Governor's Office
County Clerk
Attorney General
District Attorney

EXECUTIVE SUMMARY

The overall fiscal responsibility and accountability for Laramie County Fire District #6 rests with the governing body. This audit focused on Wyoming Statutes and how Laramie County Fire District #6 complied with them. The audit also determined the accuracy of the Census Report by reviewing supporting documentation. The areas specifically focused on were:

1. Compliance
 - Compliance with selected Wyoming Statutes
 - Other compliance
2. Accuracy and Controls
 - Cash and Investments
 - Revenues
 - Expenditures

A short summary of the focus areas are discussed below.

Lack of Supporting Documentation

The District had an overall lack of supporting documentation for expenditures, including a cash withdrawal of \$800.

Compliance with Wyoming Constitution and Federal Regulations

A lack of compliance with the Wyoming Constitution and IRS regulations exists in certain areas of the District, such as incomplete Federal payroll forms and lack of signed perjury statements. Adherence to these regulations is required by law.

Minutes Procedures and Documentation

A review of the minutes revealed there were missing key elements such as signatures, as well as certain months of minutes. Keeping adequate records is important to the District so that all expenditures can be shown as approved by the board and any important information is retained on file.

Financial Reporting and Recording

The District had significant differences in revenue, expenditures and cash from their Census Report to the bank statements. It is important to keep adequate records in order to properly track all revenues and expenditures and also to report the correct figures on the reports to the Department of Audit.

Policies and Procedures Manual

The District did not have a policies and procedures manual which allowed for significant control weaknesses. There were no procedures in place in terms of proper accounting policies, investments, IT controls or disaster recovery.

For more detail on the areas audited, refer to each specific section in the rest of the report.

Lack of Supporting Documentation

Discussion:

A lack of proper supporting documentation with expenditures existed with multiple transactions. There was a lack of supporting documentation for 49 of the 79 sampled expenditures (\$35,398 total dollar value). One notable transaction included a cash withdrawal for \$800. This withdrawal had supporting receipts for \$472 worth of transactions, however the remaining \$328 did not have any support.

Recommendation:

Without supporting documentation, expenditures could be deemed as personal transactions. A receipt should be included with all purchases to validate the District is properly using governmental funds. In addition, cash should not be withdrawn when an entity has the option of either writing a check or using a debit or credit card to complete a purchase. If cash does need to be withdrawn, a receipt must be attached detailing all associated purchases. If there is not a receipt or any supporting documentation, a transaction could be viewed as embezzlement from a governmental entity.

Compliance with Wyoming Constitution and Federal Regulations

Discussion:

The District did not comply with various Federal and State regulations. I-9 forms and W-4 forms were not obtained for all employees of the district. This is a violation of Federal Law, Title 8 CFR §274a, which requires an I-9 for all employees who perform labor or services in the United States in return for wages or other remuneration, and IRS Tax Topic 753 for Form W-4. In addition, the District did not prepare the Form 941 correctly. The amounts on the Form 941 did not agree to the actual amounts withheld from employee paychecks for Social Security and Medicare. Also, the District did not make quarterly tax payments, and it did not submit a 1099-MISC on wages paid to a contractor. The Form 941 and 1099-MISC issues are violations of Federal Law and may be subject to a penalty by the Internal Revenue Service (IRS). The District was unaware of the above Federal Regulations and did not have policies regarding the handling of federal forms.

Also, there was a violation of Wyoming Constitution Article 16, Section 7, which required all expenditures must to have a signed perjury statement. When reviewing the sampled expenditures, 54 of 79 did not have a signed perjury statement. Without a perjury statement, there is no support of the validity of expenditures by authorized personnel.

Recommendation:

It is good practice for the responsible individuals of Laramie County Fire District #6 to familiarize themselves with Federal Regulations, particularly tax guidance for paid individuals. There is set guidance for filling out the I-9 forms, W-4 paperwork, Form 941 and Form 1099 MISC. Failure to follow this guidance could result in a penalty for the District.

In addition, a secondary review should be implemented to confirm all perjury statements are signed. A simple review could be performed at the monthly board meetings when the board reviews all expenditures.

Minutes Procedures and Documentation

Discussion:

Minutes were not adequately retained or recorded by the District. There were no signatures on the minutes, prior minutes were not formally approved, and two months of minutes were missing. Without the proper signatures on the minutes there was no record of the approval process for expenditures by the board. Also, the full sample of 79 expenditures could not be vouched to the minutes as they were not itemized. The District did not have formal policies regarding the procedures for maintaining minutes or for the approval process; therefore, most minutes were just kept for reference on the District's computer without any official signatures.

Recommendation:

It is recommended the board become more involved to strengthen the processes and procedures regarding the minutes. In order to prevent any questionable expenditures, it is a good practice for the District to have all minutes signed by the appropriate officials and to maintain all minutes. The minutes should include all important decisions made by the board. In addition, expenditures should be itemized to verify the board is aware of what the purchases were for.

Financial Recording and Reporting

Discussion:

Financial reporting and recording had notable control weaknesses. A significant contributing factor to the weaknesses is that the general ledger had to be recreated after the system crashed from a virus, and it therefore did not have all of the financial information on the new ledger. Without usable books and records, a reconciliation to the books of the District could not be performed. When comparing the bank balance to the Census Report there was an \$11,350 difference in ending cash, \$49,813 difference in expenditures, and an overall \$16,296 difference in revenues. These differences were determined to be significant as each was greater than 10 % of the actual amount on the bank statements. The Census Report is an important reflection of the fiscal year's transactions and income. Misreporting these numbers could mislead the public. In addition, the District did not realize they needed to maintain the proposed budget for previous years, and was unable to provide a signed copy of the proposed budget during the audit period. Without a copy of the budget, the audit staff could not determine if the entity stayed within its budget constraints.

Recommendation:

In order to enhance the transparency of the District, all financial reporting should be confirmed by a secondary person. A review process would help to deter human errors in reporting and confirm all appropriate information is being included in the Census Report. In addition, the general ledger should be backed up and printed if there are not adequate computer security measures to protect the backup copy from a virus. Maintaining adequate books and records is important for the District to be able to verify the correct balances in any given month and to properly track where government money is being spent. Finally, a copy of the final signed budget should be kept on file so that the entity can compare the proposed expenditures and confirm they do not go over budget. A new budget form is available on the Department of Audit's website, which includes instructions on how to properly fill it out and the associated deadlines.

Policies and Procedures Manual

Discussion:

The lack of a policies and procedures manual allowed for a weak control environment. The District did not have any written accounting policies, investment policies, IT policies or a disaster recovery plan. Every District should have a "Statement of Investment Policy" per W.S. 9-4-831(h). Procedures were followed as they were done in the past and; therefore, there were no formal processes written down for personnel to follow.

Due to a lack of oversight and review process, the budget hearing notice and self-audit were never submitted to the Department of Audit as required. A self-audit enables transparency within a district and is required as follow up paperwork based off the revenue and expenditures of Laramie County Fire District #6. A lack of a detailed review process also resulted in 39 of the 79 sampled expenditures not having authorized signatures and 45 of the 79 sampled expenditures without dual signatures. Without proper authorizations, a transaction cannot be verified as being approved and may become a questionable personal expenditure. In addition, one payment was not paid through the payroll system and; therefore, the appropriate amount of social security and Medicare was not deducted.

Also, as a result of having a minimal review process, there was a significant lack of supporting documentation. Supporting documentation was not maintained for three of the five deposits and seven of the 19 voided checks. Without the support for these transactions a reconciliation back to the original depositor to confirm accuracy could not be performed and could not determine if the original checks were actually voided.

Weaknesses also existed with the segregation of duties. The District maintained a debit card which was given to any employee who needed to make a purchase. Although there were authorized signatories on the account, the card was able to be used by any individual. The District followed an "honor system" and trusted its personnel to make necessary purchases for the District only. In addition, a lack of segregation of duties existed as the same person was responsible for receiving and depositing revenues. To confirm the correct amounts are being deposited, these duties should be separated.

Finally, weaknesses existed in regards to surety coverage. Surety coverage was also determined to be insufficient when compared to the total cash in the bank. There was only \$5,000 in surety coverage for the clerk/treasurer at the end of the year, which is only 3% of the total cash and investments on hand during the same time period. In addition, only two signatories for all of the accounts were bonded at all during the audit period, the other two had no coverage. The District felt this was adequate coverage as the clerk/treasurer was covered and there were no policies regarding what amount should be deemed sufficient.

Recommendation:

The District should create an accounting policies and procedures manual that will discuss the necessary controls to be carried out with the review process, segregation of duties, maintenance of supporting documentation, proper surety coverage, disaster recovery plan and other key control elements. The policies and procedures manual should also discuss the proper IT measures and an investment policy. A disaster recovery plan is also important in order for the District to survive if a disaster such as a fire or natural disaster was to occur. Examples of components of the plan would be to list an alternate location for the District to use and where emergency calls can be routed to if

the current location was determined to be unusable. An accounting manual is available on the Department of Audit's website for reference and to assist the District in creating their own.

A review process is an important procedure within an entity to prevent human error and to ensure all appropriate processes are being carried out. The board needs to take a more active role in its oversight function of the District's operations. They need to ensure policies are in place to prevent error and enforce controls throughout the District. The board needs to ensure all reporting requirements are fulfilled such as the self-audit and budget hearing notice. It should also confirm correct payments are made to social security and Medicare, as underpaying social security and Medicare can result in a penalty imposed by the IRS against the District or individual Board members. The review process should also require a second person to ensure all documents have their proper signatures and all supporting documentation is maintained. In addition, voided checks should also be maintained to confirm they were actually voided and cannot be used at a future date.

Also, it is recommended there is a greater segregation of duties. It is important that only the authorized personnel make purchases and the duties of purchasing are limited so there is accountability for such expenditures. The accounting policies and procedures manual should detail who can make purchases for the District and the procedures following these purchases. To ensure that all funds are accounted for, there should be more than one person handling all revenues. There is an increased risk of fraud when there is little monitoring over expenditure activity and when the same person can receive and deposit revenues.

It is also recommended the District increase the amount of surety coverage. It is important to safeguard enough cash and investments, and have adequate signatories, so the entity could recover if something was to happen if the money was lost.

Laramie County Fire District #6 Response

Laramie County Fire District #6

Answers to Audit Report Findings

Objective 1:

- 1) The district is implanting new procedures that no cash with draws will be made, all transactions of this nature will start with a check and will end with all supporting cash register receipts or invoice receipts.
- 2) These were on the debit card account and the department has done away with the debit card.

Objective 2:

- 3) All employees, Board Members and Firefighters have filled out I-9 forms and these are being kept with their personnel file.
- 4) All perjury statements are signed prior to the board meeting, checks will no longer be approved unless the perjury statements are signed.
- 5) All employees have a current W-4 on file. All withholdings have been corrected and the proper taxes are paid.
- 6) The department was unaware of the requirement of the 1099 Misc. on the contractor for cleaning the department this has been corrected.
- 7) The Department has corrected the IRS issue. And all taxes are paid and current.

Objective 3:

- 8) The accounting program is being recreated, so that it has a workable General Ledger.
- 9) The department was unaware of the requirement of having a Signed budget; the budget for the previous year has been signed and filed.
- 10) This is due to the issues with our new accounting system is being corrected.

Items 11- 14:

There were errors in doing the report as all the receipts, checks were totaled by hand, since our accounting program was not working correctly.

Objective 4:

- 15) The financial statements are being made a part of the minutes, and signed as part of the requirement.
- 16) This is being covered in the new Book Keepers manual that is being developed for the FD. All Minutes are now signed at the end of the board meeting.
- 17) All the previous minutes were kept on the computer without signatures; they will now be signed and filed in a note book.
- 18) The typed minutes in question could not be located, the hand written notes taken during the board meeting are stored at the fire house; this issue will be resolved with the implementation of the New Book Keepers hand book.
- 19) This has been corrected and is covered in the new Bookkeeper's Manual.

Objective 5:

- 20) This was due to lack of knowledge of the book keeper and has been corrected.
- 21) All Board Members will now sign the perjury statements legibly, so they can be verified.
- 22) It is now a policy of the Fire Department that all checks must contain two Signatures.
- 23) This is being covered in the New Bookkeeping Manual; all deposits must have a copy of the check, a receipt written, and a copy of the deposit slip to verify where it came from and what it was for.
- 24) This was due to money being deposited without proper documentation and that is being covered in the new Bookkeeper Manual.
- 25) A policy has been established in the Book Keepers Manual on how to properly handle void checks so that they can track more efficiently
- 26) All Expenditure are now required to have proper documentation, including the receipt/invoice. This happened mainly with the debit card which the department no longer has.
- 27-30) these items are being covered in the Bookkeepers Manual that is being developed at this time to make sure we are in compliance with all laws and regulations.
- 31) This was an over sight on the bookkeepers part as I was unaware that this needed to be done.
- 32) We did not do the self-audit, due to the accounting program being wrong, the audit was late and the Department of Audit had already started the audit so I did not do it.
- 33) All Three people that can sign on the checking account are in the process of being bonded.
- 34) The Bond Amount is being increased.
- 35) The Department no longer has a debit card and it will not be replaced.
- 36) This is being set out in the Bookkeeping Manual;