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Management Advisory Service Report, 2004

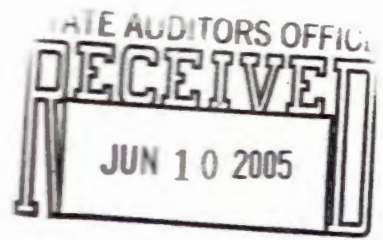
West County EMS and Fire Protection District

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WEST COUNTY EMS AND FIRE PROTECTION DISTRICT

MANAGEMENT ADVISORY SERVICE REPORT

December 31, 2004

SCHOWALTER & JABOURI, P.C.

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March 11, 2005

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To the Members of the Board
of Directors
West County EMS and Fire Protection District

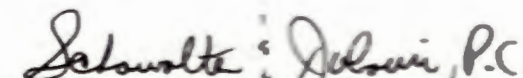
Dear Members of the Board:

In planning and performing our audit of the financial statements of the West County EMS and Fire Protection District (the "District") for the year ended December 31, 2004, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. We previously reported on the District's internal control structure in our report dated March 11, 2005. This letter does not affect our report dated March 11, 2005, on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.


SCHOWALTER & JABOURI, P.C.

CURRENT YEAR COMMENTS

CONTROL THE NUMERICAL SEQUENCE OF CHECKS USED

During our audit testing of the cash disbursements, we noted that the check summary to be paid that is given to the board for approval and signature does not appear to be in a format which allows the board to account for the check number sequence easily. For example, each summary of checks written should agree the first check number to the prior report last check number and there should not be any gaps in the check sequence. If gaps do occur, an explanation should be provided.

We recommend that the check summary report be redesigned to the format noted above to provide better control over the check sequence.

Management's Response: *The District will redesign the check summary report to include the last check number from the prior check summary and should there be any gaps in the check sequence an explanation will be provided.*

PERMITS AND INSPECTIONS

During our audit we noted significant changes the District implemented regarding the permit and inspection processes to improve controls and organization of this department. However, we noted that the cash received and posted to the general ledger from permits and inspections is not reconciled to the log of permits issued by the person issuing the permits. To ensure the accuracy of permits and inspection revenue, the individual keeping track of the permits issued should ensure through a review of the general ledger, that all permit revenue is properly posted upon receipt.

Management's Response: *The District will reconcile the general ledger to the log of permits issued to ensure that all permit revenue is properly posted upon receipt.*

BUDGET

During our current year audit we noted that the District's actual expenditures exceeded the budgeted expenditures in the General and Ambulance Funds, which is a violation of state statute.

We recommend that the Board closely monitor budget to actual results throughout the year and amend the budget for any events that have occurred that were not anticipated during the budget's original adoption.

Management's Response: *The Board of Directors will closely monitor the budget to actual results throughout the year and amend the budget for any events that have occurred that were not anticipated during the budget's original adoption.*

CURRENT YEAR COMMENTS (CONTINUED)

FRAUD POLICY

There have been several well publicized frauds involving large organizations in the last few years. Because of this publicity, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances.

Whereas the highly publicized frauds at large public organizations involved fraudulent financial reporting, for smaller organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the District perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the District's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the District. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who also have an extensive knowledge of the District, its environment, and its processes. The fraud risk assessment process should consider the District's vulnerability to misappropriation of assets. This evaluation of risk assessment and internal controls should be documented. This documentation will provide the foundation for appropriate communication concerning responsibilities for the District's evaluation of and monitoring of the effective operation of controls.

Once areas vulnerable to fraud have been identified, a review of the District's systems, procedures, and existing controls relating to the identified areas should be conducted. The District should consider what additional controls need to be implemented to reduce the risk of fraud.

When assessing the District's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

Management's Response: *Management will perform a risk assessment to identify, analyze and manage the risk of asset misappropriation. A management-level individual will perform a review of all checking accounts, reconciliations and payroll accounts. All discrepancies will be investigated and justified.*

FOLLOW-UP ON PRIOR YEAR COMMENTS

SEGREGATION OF DUTIES AND INTERNAL CONTROL

In the previous year, we discussed the following with regard to internal control:

Internal controls are designed to safeguard assets and help to detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the District's accounting staff prohibits complete adherence to this concept, we believe that the following practices could be implemented to improve existing internal control without impairing efficiency:

- Mail should be opened by an employee not responsible for accounting. Cash receipts could be recorded and the deposit prepared by this person. The cash receipts journal, supplemented by remittance advices, could be forwarded to the accounting staff for postings to the general ledger.
- Cash receipts should be deposited intact daily. Holding receipts for a weekly deposit exposes the District to loss.
- Bank statements, canceled checks, and appropriate advices should be received by someone other than employees maintaining cash records. Such items could be periodically reviewed prior to turning them over for reconciliation. Unusual items noted during the review should be investigated promptly.
- Signed checks should also be mailed without allowing them to be returned to the employees responsible for preparing them.
- Journal entries should be approved by an employee other than the one who prepared the entry.

We continue to recommend that the District consider implementing the above noted items.

Management's Response: *Staffing does not always allow for segregation of duties.*

RECORD RECEIPTS ON A TIMELY BASIS

During the prior year audit, we noted that receipts were not being recorded in the general ledger on a timely basis. The timely recording of receipts is an important control; therefore, we recommended that accounting personnel update the general ledger daily to ensure timely and proper recording of cash receipts.

During the current year audit, we did not note any receipts that were not being recorded in the general ledger on a timely basis.

FOLLOW-UP ON PRIOR YEAR COMMENTS (CONTINUED)

PAYROLL PROCEDURES

During our prior year test of payroll, we noted that the employees who process payroll have the capability to make data changes to the payroll processing files. Although each payroll run is independently reviewed, minor changes could be made to the master file and be undetected. There is no report that is run to monitor changes made to master payroll files.

We recommended that the responsibilities for processing payroll and for updating payroll master files be segregated. This segregation would provide an additional layer of review and of control over the payroll process.

Starting in 2005 the District switched from Intuit to ADP for payroll processing services. ADP provides the District with a "change report" each payroll period, which should be reviewed by management with out having access to manipulate payroll information.

Management's Response: *Staffing does not always allow for segregation of duties.*

CHECK ENDORSEMENTS

During our prior year audit, we noted that permit checks received are not being endorsed "For deposit only" immediately upon receipt. We recommended that all checks be restrictively endorsed immediately upon receipt.

All checks received are stamped "For deposit only" and this recommendation no longer applies.

PERMITS

Prenumbered permit forms were not used and permits were not reconciled to receipts by an independent person. We recommended the use of prenumbered permit forms and that the numerical sequence be reviewed periodically and agreed to receipts by an independent person.

All permits are now prenumbered and numerically accounted for. See the current year comment regarding permits and inspections.

FOLLOW-UP ON PRIOR YEAR COMMENTS (CONTINUED)

CASH DISBURSEMENTS

During our prior year test of cash disbursements, we noted one instance in which a Sears charge account statement was approved for payment but the individual receipts were not reviewed and reconciled to the statement.

We recommended that the District ensure that the reconciliation of individual receipts is included as a step in the approval process of cash disbursements.

No exceptions were noted during our current year test of cash disbursement with regard to this type of exception.