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CITIZENS SUMMARY

Findings in the audit of the Kinloch Fire Protection District

Background

The district is governed by a 3-member Board of Directors. Jayna Small served as the Board President from April 22, 2013, through March 20, 2017, and was responsible for all financial activities of the district. Her husband, Darren Small, served as the district's Fire Chief from September 2014 through March 20, 2017, and was responsible for overseeing daily operations of the district.

In January 2017, we began an audit of the district due to the district's noncompliance with audit and reporting requirements. In March 2017, the United States Attorney's Office for the Eastern District of Missouri filed criminal charges against Jayna and Darren Small for conspiring to divert funds from the district's bank account for their own personal use.

Jayna Small pleaded guilty to one count of conspiracy to commit access device fraud and one count of interstate transportation of money obtained by fraud on July 24, 2017, and was sentenced to probation on October 17, 2017. Darren Small pleaded guilty to one felony count of conspiracy to commit access device fraud and one count of access device fraud on August 3, 2017, and was sentenced to 8 months in prison on October 25, 2017. Additionally, they were ordered to repay \$75,000 to the district.

The Smalls' actions represent the district's second consecutive misappropriation of monies by those in elected or appointed district positions. In April 2013, a federal grand jury indicted Darran Kelley, a former district Fire Chief (appointed in 2002), on felony charges for his unauthorized use of more than \$140,000 of district funds from January 2007 to January 11, 2013. On July 24, 2013, Darran Kelley pleaded guilty and was later sentenced to 33 months in prison on November 19, 2013.

Misappropriated Monies

Between January 1, 2014, and March 20, 2017, district disbursements totaling at least \$98,189 were improper or unsupported. The former Board President and former Fire Chief misappropriated approximately \$72,484 through improper purchases and cash withdrawals from the district's bank account. In addition, documentation to support an additional \$25,705 in disbursements during this time period was not retained.

Board of Directors Oversight and Elections

The district's Board does not perform sufficient oversight of district accounting activities. The Board did not establish adequate segregation of duties or review processes over the various financial accounting functions performed by the former Board President. The district did not hold elections for members of the Board in compliance with state law. The district did not notify the Board of Elections that it had called for any elections between 1991 and 2016.

Accounting Controls and Procedures

The district did not maintain adequate accounting records. Receipt slips were not issued for monies received and no record of receipts was maintained. In addition, no disbursement ledger was maintained. The district's disbursement review and approval process needs significant improvement. The district does not have adequate controls over checks. The district did not have a policy restricting or limiting the use of the district's debit card. The former Board President did not ensure bills were paid timely causing the district to incur approximately \$768 in late fees, convenience fees, reconnection fees, and other similar fees between January 1, 2014, and March 20, 2017. The district did not have procedures in place to prepare and file 1099-MISC forms with the Internal Revenue Service (IRS), as required.

Nepotism

In September 2014, the husband of the former Board President was appointed as Fire Chief for the district. Board meeting minutes were not available to document if the former Board President recused herself from participating in all Board discussions and/or voting associated with this appointment.

Procurement Procedures and Agreements	Controls and procedures over the district's bidding and written agreement procedures need improvement. The district does not have a formal bidding policy and bids were not solicited for required purchases made between January 1, 2014, through March 31, 2017. The district entered into an agreement with a local consulting firm in 2015 and the Assistant Fire Chief in 2016 to complete plan reviews and inspections for commercial building construction occurring within the fire protection district. These agreements lacked clear and comprehensive guidelines, timeframes, and/or locations or projects associated with each agreement. The district improperly paid for trash services for the City of Kinloch and the city still owes the district \$331 for payments made on the city's behalf for these services.
Budgets and Financial Reporting	Annual budgets are not prepared for district funds and significant improvement is needed in financial reporting practices. The district did not prepare annual budgets for district funds as required by state law for fiscal years 2014, 2015, 2016, or 2017. The district did not submit a financial report to the SAO as required by state law for the year ended December 31, 2016, and financial reports submitted for the years ended December 31, 2014 and December 31, 2015, were not accurate. The district did not obtain an independent audit of its financial statements as required by state law for the years ended December 31, 2015, and December 31, 2016.
Capital Assets and Fuel and Vehicle Usage	Controls and procedures over the district's property and fuel and vehicle usage need improvement. The district does not maintain records of capital assets and does not tag assets or perform physical inventories. The district has not established effective monitoring procedures over fuel and vehicle usage. The district did not report the value of personal (commuting) mileage for the former Fire Chief's personal use of an unmarked district vehicle on his W-2 forms as required by the IRS. The district failed to title and register a vehicle donated to the district with the DOR.
Sunshine Law, Compliance, and Bylaws	The district did not always ensure compliance with the Sunshine Law, and did not obtain surety bonds for board members. The district did not prepare or could not locate meeting notices, tentative agendas, or minutes for any board meetings or tax hearings occurring after September 26, 2013, and prior to March 28, 2017. The district has not adopted a written policy regarding public access to district records as required by state law. The district has not obtained corporate surety bonds for its board members, or filed these bonds with the St. Louis County Circuit Clerk. The district does not have up-to-date and comprehensive bylaws.

In the areas audited, the overall performance of this entity was **Poor**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.