



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Gwinner Rural Fire District

Gwinner, North Dakota

Audit Report for the Year Ended December 31, 2018

Client Code: PS41020



Photo credit: North Dakota Tourism



Office of the
State Auditor

GWINNER RURAL FIRE DISTRICT

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GWINNER RURAL FIRE DISTRICT

District Officials and Audit Personnel

December 31, 2018

DISTRICT OFFICIALS

Roger Ache	President
Dale Keller	Vice President
Doug Anderson	Commissioner
Gary Decker	Commissioner
Chris Mathias	Commissioner
Bob Orn	Commissioner
Miles Johnson	Commissioner

AUDIT PERSONNEL

Heath Erickson, CPA	Audit Manager
Peishan Merrick	Audit In-Charge

STATE AUDITOR
Joshua C. Gallion



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INDEPENDENT AUDITOR'S REPORT

Gwinner Fire Protection District Board
Gwinner Fire Protection District
Gwinner, North Dakota

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities and the major fund of the Gwinner Fire Protection District, Gwinner, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Gwinner Fire Protection District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1 to the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for our audit opinions.

Basis for Disclaimer of Opinion

The Gwinner Fire Protection District does not maintain adequate accounting records to provide sufficient information for the preparation of the financial statements including the following:

- Approximately 80% of expenditure dollars tested were not supported by receipts or invoices resulting in a potential error to the financial statements of approximately \$316,344.

Disclaimer of Opinion

We do not express an opinion on the financial statements of Gwinner Fire Protection District. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the financial statements.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. Gwinner Fire Protection District prepares its financial statements on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2022 on our consideration of the Gwinner Fire Protection District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gwinner Fire Protection District's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
February 22, 2022

GWINNER RURAL FIRE DISTRICT
Statement of Net Position – Modified Cash Basis
December 31, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 194,069
Capital Assets, Net	<u>349,432</u>
Total Assets	<u>\$ 543,501</u>
LIABILITIES	
Long-Term Liabilities	
Due Within One Year	
Long-Term Debt	\$ 73,492
Due After One Year	
Long-Term Debt	<u>112,989</u>
Total Liabilities	<u>\$ 186,481</u>
NET POSITION	
Net Investment in Capital Assets	\$ 162,951
Restricted	
Public Safety	<u>194,069</u>
Total Net Position	<u><u>\$ 357,020</u></u>

The notes to the financial statements are an integral part of this statement.

GWINNER RURAL FIRE DISTRICT
Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2018

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Position
Governmental Activities		
Public Safety	\$ 84,456	\$ (84,456)
Interest on Long-Term Debt	1,481	(1,481)
Total Governmental Activities	<u>\$ 85,937</u>	<u>\$ (85,937)</u>
General Revenues		
Property Taxes		\$ 74,547
Insurance Refund		17,022
Raffle Ticket Sales		19,950
Miscellaneous Revenue		<u>5,721</u>
Total General Revenues		<u>\$ 117,240</u>
Change in Net Position		<u>\$ 31,303</u>
Net Position - January 1		<u>\$ 325,717</u>
Net Position - December 31		<u><u>\$ 357,020</u></u>

The notes to the financial statements are an integral part of this statement.

GWINNER RURAL FIRE DISTRICT

Balance Sheet – Governmental Funds – Modified Cash Basis

December 31, 2018

	<u>General Fund</u>
ASSETS	
Cash	<u>\$ 194,069</u>
FUND BALANCES	
Restricted	
Public Safety	<u>\$ 194,069</u>

The notes to the financial statements are an integral part of this statement.

GWINNER RURAL FIRE DISTRICT

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
December 31, 2018

Total Fund Balances for Governmental Funds	\$ 194,069
Total net position reported for government activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.	349,432
Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.	
Loans Payable	<u>(186,481)</u>
Total Net Position of Governmental Activities	<u>\$ 357,020</u>

The notes to the financial statements are an integral part of this statement.

GWINNER RURAL FIRE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis
For the Year Ended December 31, 2018

	<u>General Fund</u>
REVENUES	
Taxes	\$ 74,547
Insurance Refund	17,022
Raffle Ticket Sales	19,950
Miscellaneous	<u>5,721</u>
Total Revenues	<u>\$ 117,240</u>
EXPENDITURES	
Current	
Administrative	\$ 839
Utilities	4,306
Insurance	4,203
Fuel	1,281
Repairs and Maintenance	8,158
Equipment	257,336
Masquerade	10,634
Meetings	5,608
Miscellaneous	427
Debt Service	
Principal	48,519
Interest and Fees	<u>1,481</u>
Total Expenditures	<u>\$ 342,792</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (225,552)</u>
OTHER FINANCING SOURCES (USES)	
Loan Proceeds	<u>\$ 235,000</u>
Net Change in Fund Balances	<u>\$ 9,448</u>
Fund Balance - January 1	<u>\$ 184,621</u>
Fund Balance - December 31	<u><u>\$ 194,069</u></u>

The notes to the financial statements are an integral part of this statement.

GWINNER RURAL FIRE DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 9,448

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 235,443	
Depreciation Expense	<u>(27,107)</u>	208,336

The proceeds of debt issuances are reported as other financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Debt Issuance	\$ (235,000)	
Repayment of Debt	<u>48,519</u>	<u>(186,481)</u>

Change in Net Position of Governmental Activities \$ 31,303

The notes to the financial statements are an integral part of this statement.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Gwinner Rural Fire District ("District") have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity

The accompanying financial statements present the activities of the District. The District has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationships with the District such that exclusion would cause its financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the District.

Based on these criteria, there are no component units to be included within the District as a reporting entity.

Basis of Presentation

Government-Wide Statements. The statement of net position and the statement of activities display information about the District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, interest, and non-restricted grants and contributions, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the District's fund. Separate statements are provided for the governmental fund. The emphasis of fund financial statements is on the major governmental fund.

The District reports the following major governmental fund:

General Fund - This is the District's primary operating fund. It accounts for all financial resources of the general government.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Only current financial assets are generally included on their balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements. Only capital assets and long term debt are recorded under the basis of accounting described above on the statement of net position. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

GWINNER RURAL FIRE DISTRICT

Notes to the Financial Statements – Continued

Cash and Investments

Cash includes amounts in demand deposit accounts.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities' column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets is not capitalized. Major outlays for capital assets and improvements will be capitalized as projects are constructed. Capital assets per policy will be depreciated using the straight-line method over 5-20 years for vehicles and equipment.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, the face amount of the debt is reported as other financing sources. When applicable, premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

Fund Balances

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Net Position

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance the capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

NOTE 2 DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the District would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The District does not have a formal policy regarding deposits that limits the amount they may invest in any one issuer.

In accordance with North Dakota statutes, deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds. Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the state of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year ended December 31, 2018, the District's carrying amount of deposits totaled \$194,069, and the bank balances totaled \$194,351. All deposits were covered by Federal Depository Insurance.

NOTE 3 PROPERTY TAXES

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the District for the year ended December 31, 2018:

Primary Government	Balance Jan 1	Increases	Decreases	Balance Dec 31
Capital Assets Being Depreciated				
Vehicles and Equipment	\$ 290,756	\$ 235,443	\$ -	\$ 526,199
Less Accumulated Depreciation				
Vehicles and Equipment	\$ 149,660	\$ 27,107	\$ -	\$ 176,767
Capital Assets, Net	\$ 141,096	\$ 208,336	\$ -	\$ 349,432

Depreciation expense was charged to the Public Safety function.

NOTE 5 LONG-TERM LIABILITIES

During the year ended December 31, 2018, the following changes occurred in liabilities reported in long-term liabilities:

Primary Government	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Loans Payable	\$ -	\$ 235,000	\$ 48,519	\$ 186,481	\$ 73,492

Debt service requirements on long-term debt is as follows:

Year Ending	Loans Payable	
	Principal	Interest
2019	73,492	6,508
2020	112,989	3,789
Total	\$ 186,481	\$ 10,297

NOTE 6 RISK MANAGEMENT

The District is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The District pays an annual premium to NDRIF for its general liability, automobile insurance coverage, and inland marine. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and \$68,290 for property and equipment.

The District also participates in the State Bonding Fund. The State Bonding Fund currently provides the District with blanket fidelity bond coverage in the amount of \$31,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

Gwinner Fire Protection District Board
Gwinner Fire Protection District
Gwinner, North Dakota

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and the major fund of Gwinner Fire Protection District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Gwinner Fire Protection District's basic financial statements, and have issued our report thereon dated February 22, 2022. Our report disclaims an opinion on such financial statements because the District did not maintain adequate accounting records to provide sufficient information for the preparation of the financial statements.

Internal Control Over Financial Reporting

In connection with engagement to audit the financial statements, we considered Gwinner Fire Protection District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gwinner Fire Protection District's internal control. Accordingly, we do not express an opinion on the effectiveness of Gwinner Fire Protection District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control as described in the accompanying *schedule of audit findings* as items 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, and 2018-006 that we consider to be material weaknesses.

GWINNER RURAL FIRE DISTRICT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gwinner Fire Protection District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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. The results of our tests disclosed no instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of audit findings as items 2018-005 and 2018-006.

Gwinner Fire Protection District's Response to Findings

Gwinner Fire Protection District's response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. Gwinner Fire Protection District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
February 22, 2022

2018-001 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

Gwinner Fire Protection District has limited staff members responsible for all of the accounting functions. A lack of segregation of duties exists because the limited staff is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general, and perform bank reconciliations.

Effect

The lack of segregation of duties increases the risk of material misstatement of the Gwinner Fire Protection District's financial condition, whether due to error or fraud.

Cause

Management has chosen to allocate its economic resources to other functions of Gwinner Fire Protection District.

Criteria

Proper internal control according to the COSO framework include controls surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements. The framework dictates there should be sufficient accounting personnel so that duties of employees are properly segregated. Proper segregation of duties would provide better control over the assets of the Gwinner Fire Protection District.

Repeat Finding

No.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we will recommend the following:

- Expenditures, financial statements, bank reconciliations, credit memos, and payroll registers should be reviewed, analyzed, and reviewed by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.
- Include the board in reviewing bank reconciliations, credit memos, manual adjustments, etc

Gwinner Fire Protection District's Response

We agree to findings although we are a small rural fire department and will continue to operate as we have and follow our by-laws which requires monthly and annual reviews by fire department members and board members, respectively.

2018-002 LACK OF SUPPORTING DOCUMENTATION FOR EXPENDITURES – MATERIAL WEAKNESS

Condition

Gwinner Fire Protection District was unable to provide supporting documentation for 12 out of the 32 expenditures tested, totaling \$26,416. Projecting this error to the total population results in a potential error of approximately \$316,344 to the financial statements.

Effect

Gwinner Fire Protection District may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption.

Cause

Gwinner Fire Protection District does not have a filing system in place to ensure records are ready and available.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to supporting documentation, management is responsible for adequate internal controls surrounding the review process and without supporting documentation, the review process will not be effective.

Repeat Finding

No.

Recommendation

We recommend Gwinner Fire Protection District ensure all payments for goods and services have supporting documentation. We further recommend Gwinner Fire Protection District review its current record keeping procedures and update, if necessary, to decrease the risk of loss whether due to error or fraud.

Gwinner Fire Protection District's Response

We agree with findings and we will save all receipts as evidence of transactions.

2018-003 LACK OF BOARD APPROVAL FOR EXPENDITURES – MATERIAL WEAKNESS

Condition

Gwinner Fire Protection District did not maintain evidence of board approval for all 32 expenditures tested, totaling \$32,956.

Effect

Without adequately reviewing and approving Gwinner Fire Protection District expenditures, Gwinner Fire Protection District exposes itself to an increased risk of loss of assets, potential liabilities, and damage to its reputation, whether due to error or fraud.

Cause

Gwinner Fire Protection District does not have an adequate process to ensure all invoices are approved by the board.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to invoices to be paid by the district, management is responsible for adequate internal controls surrounding the review process.

Repeat Finding

No.

Recommendation

We recommend Gwinner Fire Protection District review and update its current board approval process to ensure that all payments are appropriate and approved by the board.

Gwinner Fire Protection District's Response

We agree with findings and as a corrective action Gwinner Fire Department will get board approval on payments with documentation of approval in meeting minutes.

2018-004 INADEQUATE CONTROLS OVER CASH ON HAND – MATERIAL WEAKNESS

Condition

Gwinner Fire Protection District holds cash on hand received from raffle ticket sales in the personal residence of the responsible personnel until it is deposited in the bank.

Effect

Maintaining the Gwinner Fire Protection District's cash on hand in a personal residence increases the risk of loss, whether due to error or fraud.

Cause

Gwinner Fire Protection District does not hold the raffle ticket sales in a secured location within the Gwinner Fire Protection District building.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Proper internal controls surrounding the custody of assets includes ensuring cash on hand is properly safeguarded.

Repeat Finding

No.

Recommendation

We recommend the Gwinner Fire Protection District hold its cash on hand in a secured location within the Gwinner Fire Protection District building until it is deposited in the bank in a timely manner.

Gwinner Fire Protection District's Response

We agree with findings and as a corrective action, Gwinner Fire Department will deposit cash from ticket sales in a timely manner and utilize the deposit box at the bank when cash is received to reduce or eliminate cash on hand.

2018-005 UNALLOWABLE EXPENDITURES – MATERIAL WEAKNESS - MATERIAL NON-COMPLIANCE

Condition

During 2018, Gwinner Fire Protection District used its resources to purchase various groceries and alcohol for its staff and volunteers totaling \$5,608.

Effect

Gwinner Fire Protection District may not be in compliance with ND Constitution Article X, Section 18.

Cause

Gwinner Fire Protection District was unaware that using its resources to provide groceries and alcohol to staff and volunteers was not allowed.

Criteria

ND Constitution Article X, Section 18 states in part "...neither the state nor any political subdivision thereof shall otherwise loan or give its credit or make donations to or in aid of any individual, association or corporation except for reasonable support of the poor, nor subscribe to or become the owner of capital stock in any association or corporation."

Repeat Finding

No.

Recommendation

Unless other laws apply, we recommend Gwinner Fire Protection District discontinue any purchases of groceries and alcohol for its staff and volunteers.

Gwinner Fire Protection District's Response

We agree with the findings. However, all tax money is held in our general fund bank account. We do not use money from the general fund to purchase items in question. Gwinner Fire Department uses a second bank account to keep track of money raised from raffle ticket sales. The money from this account is used for meeting expenses which include groceries and beverages and are not considered tax dollars. This account is also commonly used to make regular contributions toward purchases of fire equipment and also to provide charitable donations as approved by members.

Concluding Auditor's Response

N.D.C.C 21-04-01 defines "public funds" and "public corporation." N.D.C.C. 21-04-01(5) states in part, "'Public funds" includes all funds derived from taxation, fees, penalties, sale of bonds, or from any other source, which belong to and are the property of a public corporation or of the state, and all sinking funds of such public corporation or of the state, and all funds from whatever source derived and for whatever purpose to be expended of which a public corporation or the state have legal custody." N.D.C.C. 21-04-01(4) states, "Public corporation" includes a county, city, school district, and any body corporate except a private corporation."

As noted in the definitions above, the raffle ticket sale proceeds are likely considered public funds, even though they were kept in a separate account, as they are the property of a public corporation, the Gwinner Fire Protection District. These funds are included with the General Fund for financial reporting purposes. The State Auditor's Office continues to recommend Gwinner Fire Protection District discontinue purchasing grocery and alcohol for its staff and volunteers, as this may be prohibited by ND Constitution Article X, Section 18.

2018-006 RAFFLE TICKET RECORDKEEPING – MATERIAL WEAKNESS-MATERIAL NON-COMPLIANCE

Condition

Gwinner Fire Protection District does not maintain supporting documentation for all elements required in N.D.C.C. 99-01.3-05-07 regarding its raffle ticket sales.

Effect

Gwinner Fire Protection District is not in compliance of N.D.C.C. 99-01.3-05-07.

Cause

Gwinner Fire Protection District may not have been aware of N.D.C.C. 99-01.3-05-07.

Criteria

N.D.C.C. §99-01.3-05-07. Recordkeeping.

1. For each raffle that uses tickets with detachable stubs:
 - a. Purchase invoice documenting the purchase of tickets and range of ticket numbers printed;
 - b. Ticket distribution log containing a ticket seller's name, quantity issued, range of single and discounted ticket numbers issued to the seller, and quantity sold;
 - c. Reconciliation of the cash received from each ticket seller based on the number of tickets sold, including discounted tickets, date cash is received, and a schedule of bank deposits;
 - d. A sample of a ticket;
 - e. The stubs of all sold raffle tickets and all unsold raffle tickets which must be retained for one year from the end of the quarter in which the activity was reported on a tax return; and
 - f. Documentation of the cost of nongaming activity according to subdivision b of subsection 1 of section 99-01.3-05-06.

Repeat Finding

No.

Recommendation

We recommend the Gwinner Fire Protection District maintain its required supporting documentation for raffle ticket sales to ensure compliance with N.D.C.C. §99-01.3-05-07.

Gwinner Fire Protection District's Response

We agree with findings and will continue to maintain our supporting documentation for raffle ticket sales and keep ticket stubs for a period of 3 years.

STATE AUDITOR
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GOVERNANCE COMMUNICATION

Fire Protection District Board
Gwinner Fire Protection District
Gwinner, North Dakota

We were engaged to audit the financial statements of the governmental activities, and the major fund of Gwinner Fire Protection District, Gwinner, North Dakota, for the year ended December 31, 2018, which collectively comprise Gwinner Fire Protection District's basic financial statements, and have issued our report thereon dated February 22, 2022. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated September 10, 2021, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered Gwinner Fire Protection District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether Gwinner Fire Protection District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Gwinner Fire Protection District are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

General Fund	Audit Adjustment	
	Debit	Credit
<u>To cancel bank transfers within fund</u>		
Revenue	\$ 10,000	\$ -
Expenditure	-	10,000

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 22, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Fire Protection District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit other than what is listed below:

The Gwinner Fire Protection District did not maintain adequate accounting records to provide sufficient information for the preparation of the financial statements including the following:

- Approximately 80% of expenditures tested were not supported by receipts or invoices resulting in a potential error to the financial statements of approximately \$316,344.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We do not express an opinion on the financial statements of Gwinner Fire Protection District. Because of the significance of the matter described in the Difficulties Encountered in Performing the Audit paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the financial statements.

This information is intended solely for the use of the Protection Fire District Board and management of Gwinner Fire Protection District, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of Gwinner Fire Protection District for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve Gwinner Fire Protection District.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
February 22, 2022



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

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