



SCHUYLER COUNTY HEALTH DEPARTMENT
BUILDING PROJECT

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-03

January 7, 2000

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

January 2000

Some problems were discovered as a result of an audit conducted by our office regarding the Schuyler County Health Department Building Project, Schuyler County, Missouri.

Building project expenditures totaled approximately \$30,000 and \$215,400 in 1998 and 1999, respectively.

Inadequate advanced project planning and the necessary related fiscal and budgetary planning prevented the board from properly identifying and controlling project costs.

Other problems with board management of the project included the following:

- Inadequate internal controls overseeing project invoices and payments.
- Inadequate budgeting.
- Inadequate safeguarding of assets.

Building cost estimates were not reported to nor requested by the board in a timely manner, the health department paid a vendor \$4,000 in excess of the contract price, and the “interior carpentry” services apparently was not performed in accordance with contractual specifications. The \$4,000 overpayment was refunded after we brought it to the attention of the health department.

The Board of Trustees did not include building project expenditures in its annual budgets for 1998 and 1999. Additionally, the board does not perform or document a periodic comparison of actual revenues and expenditures with budgeted amounts.

The health department did not obtain or maintain insurance coverage on the building during its construction, exposing taxpayer funds to possible loss.

YELLOW SHEET

SCHUYLER COUNTY, MISSOURI
HEALTH DEPARTMENT BUILDING PROJECT

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-2
HISTORY AND ORGANIZATION	3-5
MANAGEMENT ADVISORY REPORT	6-14
SUMMARY OF FINDINGS	7

<u>Number</u>	<u>Description</u>	
1.	Overall Planning	8
2.	Building Construction Procedures and Project Oversight	10
3.	Budgetary Practices	12
4.	Insurance Coverage	13



CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Trustees of the
Schuyler County Health Department
Schuyler County, Missouri

We have conducted a review of the Health Department building project of Schuyler County, Missouri. The scope of this review included, but was not necessarily limited to, procedures and conditions as they relate to the construction of the health department's new building. The objectives of this review were to:

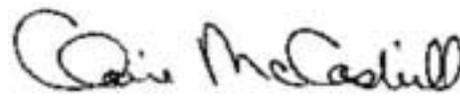
1. Determine the propriety of transactions and compliance with laws and regulations relating to the construction of the new health department building.
2. Investigate concerns of county citizens and members of the Board of Trustees regarding the building construction project and possible improprieties.
3. Review certain management practices and legal compliance issues to determine the propriety and efficiency of those procedures and practices.

Our review was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the financial records, reports and procedures of the department; reviewed records relating to the health department building project; held discussions with appropriate health department officials and personnel, county officials; and, reviewed other records and documents as we considered necessary for the review.

Our review was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the health department and was not subjected to the auditing procedures applied in the review of the health department.

The accompanying Management Advisory Report presents our findings and recommendations arising from our review of the health department building project of Schuyler County, Missouri.

A handwritten signature in black ink, appearing to read "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

September 24, 1999 (fieldwork completion date)

HISTORY AND ORGANIZATION

SCHUYLER COUNTY, MISSOURI
HEALTH DEPARTMENT BUILDING PROJECT
HISTORY AND ORGANIZATION

The Schuyler County Health Department was created under the authority of Chapter 205, RSMo 1994, in 1978 to provide a wide range of health and medical services to the residents of Schuyler County. Services provided include public health, health education, communicable disease surveillance and control, home health, immunization, WIC (Women and Infant Children), sanitation services, personal care services and homemaker chore program through Medicaid, and birth and death certificates.

The health department is governed by an elected five-member Board of Trustees. Board members are elected for four year terms. At times, board vacancies are filled by appointment by the County Commission, pending future election. The current board members are:

April 1999 - Present

Georgia Ann Robinson, Chairman
Diane Sanchez
Cathy Middleton
Angela Schmitter
Eldon Tallman (1)

(1) Replaced by Cathy Lay by appointment in July 1999.

The previous board members were:

January 1997 - March 1999

George Reindel, Chairman
Robert Slaughter
Georgia Ann Robinson
Twila Anderson (2)
Janet Blaise (3)

(2) Replaced by Diane Sanchez by appointment in July 1997.

(3) Replaced by Cathy Middleton by appointment in November 1998.

The health department administrator from January 2, 1996 through August 5, 1999 was Susan Chidester. The current health department Acting Administrator, Janice Shaw, was hired on August 5, 1999.

The health department is partially funded by a county property tax with a ceiling of fifteen cents per \$100 valuation. Assessed valuation and tax rate information for tax year 1999 were as follows:

ASSESSED VALUATION *

Real Estate	\$21,516,738
Personal Property	<u>10,894,066</u>
Total	<u>\$32,410,804</u>

TAX RATE PER \$100 OF ASSESSED VALUATION:

Health Department Fund	\$.15
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* Assessed valuations for the tax year were made on real and personal properties owned by the taxpayers on January 1 of the tax year. Taxes levied during the tax year become delinquent after December 31 of that year.

MANAGEMENT ADVISORY REPORT

SCHUYLER COUNTY, MISSOURI
HEALTH DEPARTMENT BUILDING PROJECT
SUMMARY OF FINDINGS

1. Overall Planning (pages 8-9)

Inadequate advanced project planning and related fiscal and budgetary planning prevented the board from properly identifying and controlling project costs. Lack of adequate planning allowed several other problems to develop.

2. Building Construction Procedures and Project Oversight (pages 10-12)

Building cost estimates were not reported to nor requested by the board in a timely manner. The health department paid a vendor \$4,000 in excess of the contract price, and the "interior carpentry" contractor did not furnish or install mini-blinds in windows as required by the contract specifications.

3. Budgetary Practices (pages 12-13)

The Board of Trustees did not include building project expenditures in its annual budgets for 1998 and 1999. Additionally, the board does not perform or document a periodic comparison of actual revenues and expenditures with budgeted amounts.

4. Insurance Coverage (pages 13-14)

The health department did not obtain or maintain insurance coverage on the building during its construction, exposing taxpayer funds to possible loss.

SCHUYLER COUNTY, MISSOURI
HEALTH DEPARTMENT BUILDING PROJECT
MANAGEMENT ADVISORY REPORT

The Health Department Board of Trustees began discussing the need for a new office building as early as 1997 due to concerns related to client safety, poor building foundation and roof, lack of compliance with the Americans with Disabilities Act (ADA), limited parking, and carbon monoxide problems.

The Board of Trustees considered two options to alleviate the health and safety concerns of the old building; those being the demolition of the old building and construction of a new building or the sale of the existing building and purchase of land elsewhere for a building site. On June 30, 1998, the board approved the purchase of land at another location at a cost of \$7,500. Ultimately, the board sold the old building on September 29, 1998 at a price of \$6,000. The health department started construction of a new 3,300 square foot office building at the new site in October 1998. The new building was completed in June 1999.

Because of public concerns and questions directed to the Schuyler County Commission and Health Department Board members regarding the health department building project, the State Auditor's office performed a review of certain records and reports of the health department and held discussions with certain members of the Board of Trustees, department officials and personnel, county officials, and others as we considered necessary.

1.	Overall Planning
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The following is a summary of the costs incurred through August 31, 1999 to build the new health department office building:

Property Acquisition	\$ 7,500
Plans/Specifications	8,550
Bid Advertising	995
Preliminary Site Grading	11,200
Building Shell	65,228
Electrical Wiring and Fixtures	18,362
Plumbing	13,508
Heating & Air Conditioning	17,085
Interior Carpentry	77,849
Floor Covering	4,124
Phone System	4,586
Final Site Grading and Retaining Wall	15,839
Other	574
Total	\$ <u>245,400</u>

Building expenditures totaled approximately \$30,000 and \$215,400 in 1998 and 1999, respectively.

During our review of the building project we noted that many of the concerns and problems appeared to largely originate from inadequate board involvement in advanced project planning and the necessary related fiscal and budgetary planning. For example, the board did not appear to take adequate measures in the early planning stages of the building project to identify an expected cost per square foot for a new building. Had this been done, such information could have been used to help establish the initial scope of the project and to ensure the expected total project costs were identified and compared to the department's available building funds. At that point the size of the building to be built could have been reduced as necessary to avoid exceeding available funding or longer term financing could have been considered and negotiated.

These planning failures essentially prevented the board from properly identifying and adequately controlling the cost of the building project. There were several notable problems with board management of the project, including the following:

- C Inadequate board involvement in planning and project management.
- C Inadequate internal controls overseeing project invoices and payments.
- C Inadequate budgeting.
- C Inadequate safeguarding of assets.

WE RECOMMEND in any future projects or health department operations the Board of Trustees ensure it evaluates in advance all construction costs and other potential costs related to the project in an effort to determine realistic, usable, and complete cost estimates. This information should then be used by the board to determine project feasibility and scope and to prepare a proper financial plan. In addition, the board must ensure it exercises proper board oversight, has effective internal controls, adequate budgeting, and properly safeguards all assets.

AUDITEE'S RESPONSE

The Health Board responded:

The board agrees there were problems with the handling of the building project by the former Board of Trustees. The current board will ensure that future projects and endeavors will be more adequately planned.

The former administrator responded:

Idid as the board asked. Had I known the proper procedure and process for the building project, these concerns would have been handled properly.

2. Building Construction Procedures and Project Oversight

- A. Chapter 49, RSMo 1994, establishes construction guidelines for county buildings and requires the board to appoint a suitable person to superintend any construction project. Chapter 49, RSMO 1994, requires the superintendent to prepare plans and a cost estimate for the project and submit them to the board for approval and also to submit periodic progress reports during construction.

The Board of Trustees authorized the former administrator to act as the superintendent for the construction project, however, it appears she did not properly or adequately inform the board of the total expected cost. Based on health department records and documented estimates obtained by the former administrator, in March 1998 it was expected that the building would cost at least \$62,200. However, it appears many other costs had not been identified and the department did not learn until April 1998 that state law would require that project laborers be paid prevailing wages. The unidentified costs and prevailing wage requirements significantly increased the expected cost of the project but there was no documentation that any effort was made by the board or the administrator to determine the total effect of those differences and incorporate them into planning considerations.

The administrator met with the project architect in May 1998 to establish the initial plans and it was not until November 24, 1998 that the board met with the architect. There was no documentation that the board asked for an estimated total project cost at that meeting. The administrator indicated that she knew at that time the cost would be approximately \$65 to \$70 per square foot but she did not inform the board. No one was able to provide written details of any discussions with the architect and the details were not included in the board minutes.

A cost of \$70 per square foot would equal a total cost of \$231,000. There is no record that the former administrator ever disclosed the total cost estimate to the board.

The board should ensure future projects are adequately planned and cost estimates are obtained and documented. In addition, the board must ensure that it applies adequate oversight to all health department operations. Good management practices require extensive and detailed oversight by the board.

- B. Our comparison of payments to vendors against contract bids revealed the electrical contractor was overpaid \$4,000. The health department contracted with a vendor to install all electrical services for its new building at a cost, after change orders, of \$18,362.

The vendor was actually paid \$22,362. After we brought the overpayment to the health department's attention, the \$4,000 was reimbursed in October 1999.

Good management practice requires invoices be compared to contract bids to prevent the possibility of such inappropriate payments. Failure to adequately review invoices and other supporting documentation and to periodically compare payments made to the contract bid increases the possibility of overpayment.

- C. The health department contracted with the lowest of two bidding vendors to provide "interior carpentry" services, consisting of installation of interior walls, ceilings, insulation, windows, and painting at a total cost of \$91,750. According to the contract specifications, the contractor was to furnish and install mini-blinds at each window, however, none were installed. It appears this was authorized by the former administrator without board approval and there was no reduction in the contract cost to compensate for the omission. In lieu of the contractor installing blinds, the former administrator said she planned to install mini-blinds herself. Since the completion of the building project the current administrator has purchased and installed mini-blinds in the conference room. Several other windows still need blinds added.

The board as a part of its oversight responsibilities should ensure contractors perform all work specified in the contract. If modifications to contract specifications become necessary they should be in writing, reviewed by the architect, and approved by the board of trustees.

The board should review the contract specifications and consider contacting the vendor to request full contract compliance or an appropriate price adjustment.

WE RECOMMEND the Board of Trustees:

- A. Apply adequate oversight procedures and comply with all laws and regulations regarding construction or other activities in any future projects. This would include ensuring project cost estimates are obtained, presented and evaluated to ensure the best informed management decisions are made.
- B. In the future, perform periodic comparisons of amounts paid to vendors to the contract bids to prevent overpayment and ensure the propriety of all payments made.
- C. Review the interior contract specifications and consider requesting the contractor comply with the contract or make appropriate price adjustments.

AUDITEE'S RESPONSE

The Health Board responded:

A&B. *We agree. For any future projects, the board will apply adequate oversight procedures.*

C. *We plan to review the interior contract specifications.*

The former administrator responded:

C. *I personally obtained a larger than specified window for the conference room at no expense to the health department. The contractor installed this window and during the installation the window pane was cracked. The contractor replaced the window at no cost to the health department. I agreed with the contractor he could provide a new window in lieu of mini-blinds at each window. The health department owned pleated shades that would be installed in lieu of mini-blinds.*

AUDITOR'S COMMENT

The agreement on the blinds was not documented or submitted to the board, therefore the timing of the contractor's agreement to provide a replacement window at no cost could not be compared to the timing of the agreement on the mini-blinds.

3. Budgetary Practices

A. The former administrator was responsible for preparing and submitting to the Board of Trustees the health department's annual budget. As noted in our report of Schuyler County for the two years ended December 31, 1998, health department expenditures exceeded budgeted amounts during the years ended December 31, 1998 and 1997 by approximately \$65,700 and \$47,800, respectively. The overspending was partly a result of unbudgeted construction costs for the new building in 1998 and increases in employee salary expenditures in 1998 and 1997. Similarly, the 1999 budget failed to include expected building expenditures. In July 1999, near building project completion, an amended 1999 budget was submitted that included 1999 budgeted and 1998 actual construction expenditures.

During our review we determined the board did not adequately comply with statutory requirements for advanced public notice of the hearings for consideration of the original or amended budgets. Any major project such as this health department building project requires careful advanced planning and strict compliance with the county budget laws and careful monitoring to ensure that unexpected problems and cost surprises are minimized.

B. The board does not perform or require a periodic comparison of actual revenues and expenditures with budgeted amounts. Such monitoring might have allowed the board to identify financial problems resulting from the building project on a more timely basis.

A complete and well-planned budget can serve as a useful management tool by establishing specific cost expectations for each area and providing a means to effectively monitor costs and financial condition.

WE RECOMMEND the Board of Trustees:

- A. Ensure complete and accurate budgets that reflect all anticipated revenues and expenditures are prepared. In addition, ensure the department complies with statutory requirements for advanced public notice of the hearings for consideration of the original or amended budgets.
- B. Compare actual revenues and expenditures with budgeted amounts on an ongoing basis.

AUDITEE'S RESPONSE

The Health Board responded:

A&B. We are currently complying with the budget laws and comparing actual to budgeted amounts and will continue to do so in the future.

4.

Insurance Coverage

The health department failed to obtain builder's risk insurance to cover the building project during construction. By monitoring contract terms and physical progress, the board was aware of significant project costs in early 1999, however, no insurance coverage was obtained. This lack of insurance coverage subjected taxpayer funds to unnecessary risks of loss. Had the building been damaged or destroyed during construction, the health department would have received no compensation for any losses.

An insurance policy on the new building, consisting of \$240,000 in coverage, was purchased in August 1999, and retroactively took effect on June 26, 1999 according to the policy.

To adequately safeguard health department assets and prevent loss of taxpayer monies, the board should obtain adequate insurance coverage for all new assets.

WE RECOMMEND the Board of Trustees ensure that health department assets continue to be adequately insured to protect against potential losses.

AUDITEE'S RESPONSE

The Health Board responded:

The current board did review for insurance coverage and found that the building lacked adequate coverage. Proper coverage was obtained and it will be continued in the future.

The former administrator responded:

I acknowledge that I did not follow through and obtain adequate insurance coverage.

This report is intended for the information of the health department's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.