



Claire McCaskill

Missouri State Auditor

August 2006

Clay County Public Water
Supply District #8

Year Ended December 31, 2005



Office Of
Missouri State Auditor
Claire McCaskill

August 2006

The following findings were included in our audit report on the Clay County Public Water Supply District #8.

Since 2003, the Clay County Public Water Supply District #8 (district) has been involved in various lawsuits with property owners seeking detachment of their properties from the district, which would allow property owners to develop residential or commercial units on the property and obtain water and sewer services from nearby cities. The planned housing developments on the affected properties would significantly increase the district's customer base and provide additional revenues to fund capital improvements for the entire system.

The district has engaged six principal law firms over the past three years for these lawsuits and incurred legal fees totaling approximately \$1,083,000 during the three years ended December 31, 2005. The district has paid approximately \$716,000 in legal costs from 2003 to 2005, disputed and has unpaid billings of \$136,000 from one firm dismissed in 2003, and is making payments on the unpaid balances due the current attorneys totaling about \$231,000.

The board sought these firms because of their resources and expertise and interviewed attorneys from the firms; however, documentation of the interviews was not prepared, nor were they mentioned in the board minutes. Written contracts were not executed with all firms employed and anticipated legal expenditures were not properly budgeted in 2005 or 2006. While the anticipated expenditures for litigation was included in a cash basis analysis included with the budget, a line item for litigation expense was not budgeted, and nothing was included for additional litigation expenditures related to ongoing lawsuits. In addition, detailed invoices were not maintained for two attorney billings, totaling approximately \$82,000, which were submitted and paid in 2003.

The district did not prepare complete budgets as required by state law and actual expenses exceeded budgeted amounts. The district's 2005 budget did not include expected capital improvement costs and actual costs of the project were not periodically compared to estimates. Actual and estimated costs of the project were not monitored monthly, no documentation was maintained in the board minutes to document any progress report reviews, and estimated capital improvement costs were not included in the 2005 budget. In addition, the district did not revise its master plan for changes in the project plans and did not revise the cost estimates.

The district does not have a formal bidding policy. The decision of whether to solicit bids/proposals for a particular purchase is made on an item-by-item basis. During 2005, bids were not solicited for lawn mowing services, and in 2003 there were no bids for the

YELLOW SHEET

lease purchase of a \$65,000 backhoe. Additionally, there was no documentation explaining why the district did not accept the lowest bid for road boring services bid in 2005.

District water sales revenues totaled approximately \$480,000 for the year ended December 31, 2005. There is no independent oversight or adequate segregation of duties related to the district's water billing system. The office manager performs all functions related to generating monthly water bills; receiving, recording and depositing water payments; approving and making adjustments; and producing various reports. There is no documented independent review by the board of these activities or reports.

The board does not always document its approval of employee salaries, additions, and pay raises. There was no documented board approval for the 2005 salaries for the construction employees, which totaled approximately \$78,000 for the year ended December 31, 2005.

Also included in the report are recommendations related to minutes and equipment records.

All reports are available on our website: www.auditor.mo.gov

CLAY COUNTY PUBLIC WATER SUPPLY DISTRICT #8

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Directors
Clay County Public Water Supply District #8

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Clay County Public Water Supply District #8. The district had engaged Westbrook and Company, P.C., Certified Public Accountants, to audit the district for the year ended December 31, 2005. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the district included, but was not necessarily limited to, the year ended December 31, 2005. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the district; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the

provisions. 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.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the district's management and was not subjected to the procedures applied in the audit of the district.

The accompanying Management Advisory Report presents our findings arising from our audit of the Clay County Public Water Supply District #8.



Claire McCaskill
State Auditor

January 26, 2006 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Todd M. Schuler, CPA
In-Charge Auditor: John Lieser, CPA

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CLAY COUNTY PUBLIC WATER SUPPLY DISTRICT # 8
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Litigation Costs
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The district did not adequately document its decisions for hiring law firms, did not execute written contracts with some law firms, did not adequately budget for expected litigation costs, and did not always maintain detailed billing documentation for legal services.

Since 2003, the district has been involved in various lawsuits with property owners seeking detachment of their properties from the district. Detachment would allow them to develop residential or commercial units on the property and obtain water and sewer services from the cities of Kearney or Excelsior Springs. The planned housing developments on the affected properties would significantly increase the district's customer base and provide additional revenues to fund capital improvements for the entire system.

The district has engaged six principal law firms over the past three years for these lawsuits and incurred legal fees totaling approximately \$1,083,000 during the three years ended December 31, 2005. The district questioned the performance of and dismissed and replaced three of these firms in 2003. Since November 2003, the district has employed one firm as lead counsel and employed two other firms to assist the lead counsel. The district has paid approximately \$716,000 in legal costs from 2003 to 2005, disputed and has unpaid billings of \$136,000 from one firm dismissed in 2003, and is making payments on the unpaid balances due the current attorneys totaling about \$231,000.

A. The decision to hire these various law firms was not adequately documented. The district's manager indicated the board sought these firms because of their resources and expertise and interviewed attorneys from the firms; however, documentation of the interviews was not prepared, nor were they mentioned in the board minutes. The decision to hire two of the firms was disclosed in the minutes, but these decisions were made in closed session and the decision to hire these firms was not subsequently disclosed in open session.

The district should document the firms interviewed and the basis for selection as part of the board meeting minutes to provide complete documentation of its efforts to obtain quality services at a reasonable price. Additionally, Section 610.021, RSMo, requires certain matters discussed in closed session be made public upon final disposition.

B. Written contracts were not properly executed with some of the law firms employed by the district. The board had no written contracts with two of the principal firms employed in 2003 and the district currently has no written

agreement with its general counsel, who also provides some assistance on the litigation matters. The fees and other agreed-upon terms were not documented for the agreements with these attorneys. Additionally, the board hired the current lead counsel in November 2003, and began paying him monthly for services, but did not have a signed contract in place until November 2004.

Section 432.070, RSMo, requires contracts of political subdivisions be in writing. The district should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties. The written agreements should be prepared and signed before services are rendered.

- C. The district did not properly budget for all anticipated expenditures. The district's 2005 and 2006 budgets contained no estimated expenditures for litigation. According to the district's office manager, while the district expected additional litigation expenses, they did not budget them because they would be difficult to estimate and the district considered them extraordinary costs, which would distort the budgeted operating expenses. As a result, for 2005, the district incurred approximately \$191,000 in billings for new litigation expenses which were not budgeted.

The anticipated expenditures for litigation were included in a cash basis analysis included with the budget, but a line item for litigation expense was not budgeted. For 2005 and 2006, the cash basis analysis performed by the district included \$156,000 and \$90,246, respectively, for litigation payments of existing legal fees, but the actual budget did not include these amounts, and nothing was included for additional litigation expenditures related to ongoing lawsuits. By failing to include expected payments on existing liabilities in the budget and failing to include estimates of new litigation expenses, the district's budgets do not include a complete forecast of the district's expected financial condition.

Section 67.010, RSMo, requires the preparation of an annual budget, and sections 67.010 to 67.080, RSMo, set specific guidelines for the format, approval, and amendments of the annual operating budget. A complete budget should include estimates of litigation expenses. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific costs expectations for each area of district operations and provide a means to effectively monitor actual costs. It will also assist in informing the public about the district's operations and current finances.

- D. Detailed invoices were not maintained for two attorney billings, totaling approximately \$82,000, which were submitted and paid in 2003. The billings contained only the total charge for professional fees and did not detail the hours,

hourly rate, or tasks performed. The office manager believes the district received detailed billings but he could not locate the documents.

The district should ensure adequate supporting documentation is obtained and retained for services provided, including a description of the tasks performed and time spent on these tasks. Lack of adequate documentation prevents the district from evaluating the appropriateness of the services being billed.

WE RECOMMEND the Board of Directors:

- A. Maintain documentation in the meeting minutes of firms interviewed for professional services and the criteria considered in awarding the contracts. Additionally, make public the final disposition of applicable matters discussed and decisions made at closed meetings.
- B. Ensure formal written agreements are prepared for legal services. The agreements should be prepared before the services are rendered.
- C. Ensure all anticipated expenditures are included in the budgets.
- D. Maintain detailed invoices supporting payments for professional services.

AUDITEE'S RESPONSE

The District, facing encroachment from adjoining municipalities, was forced to make a decision between protecting its territory or letting the territory go with no indication of when or where the encroachment might end. The short-sighted approach would have been to let the territory go and assume the encroachment would end at a point which would not affect the integrity of the District. The long-term approach was to protect the territory even if in the short term considerable expense would be incurred. The District chose to protect the District.

That choice has lead to success for the District in court and opportunities to resolve encroachment issues; negotiating from a position of strength rather than weakness. Of course, it has been, given the relentless nature of the attacks on the District, a difficult and expensive proposition.

Currently the District employs one firm to handle litigation matters and one attorney to handle general matters. All of the current attorneys were retained at open meetings, and are under written contract with the District. It is not anticipated that the District will need additional counsel; in fact, recent events suggest that the District's need for litigation representation will continue to lessen in the days and months ahead.

As the auditor's comments suggest, it has been a trying and difficult process to secure appropriate counsel willing to aggressively represent the interests of the District at the same time understanding the need to protect and preserve the District's financial resources. The

District believes it has struck that balance. The recommendations of the auditor are well received and the District will continue to see that they are implemented.

2.

Capital Improvements

The board has not adequately budgeted for capital improvement costs or loan and bond proceeds related to extension of the water system and has not maintained documentation of its modifications to its capital improvements plan.

In October 2002 the district developed a master plan outlining capital improvements needed to the district's water system over 20 years, at an estimated cost of approximately \$8.5 million. In March 2003 the district issued special revenue bonds totaling about \$960,000 to begin making the improvements detailed in the master plan. District outlays for its capital improvement projects from 2003 through 2005 from bond proceeds and general funds totaled about \$1.2 million. New water lines were installed as part of the plan to develop a primary water line loop around the district, but this project is not complete and the district is currently pursuing additional funding sources to continue the project. During 2005, \$8 million in bonds were approved by voters and the district has also applied for a loan from the United States Department of Agriculture. The district intends to utilize the loan proceeds, if approved, before issuing additional bonds. During our review of the district's plans and cost data, the following concerns were identified.

- A. The district's 2005 budget did not include expected capital improvement costs and actual costs of the project were not periodically compared to estimates. The budget includes depreciation expense for the completed sections of its capital improvement projects, but the planned cash outlays for the current year are not included. Actual and estimated costs of the project were not monitored monthly, but the board did compare actual and estimated costs at the end of 2004 and determined that total actual costs were less than estimated costs principally because the district had performed most of the construction labor using district employees, rather than contracting for the work. The manager indicated the board received verbal progress reports on the project at each meeting and reviewed all construction cost outlays as part of its normal payment process. No documentation was maintained in the board minutes to document these progress report reviews and estimated capital improvement costs were not included in the 2005 budget. The district should consider budgeting capital improvement costs separately as the loop project continues, to allow the board to more adequately monitor the actual costs of the project.

The board should include estimated capital improvement costs, and revenues if applicable, in its annual budget to allow for monitoring of its receipts and costs and provide disclosure to the public about its plans for the upcoming year.

- B. The district did not revise its master plan for changes in the project plans. The district decided to lay pipe for the loop in contiguous sections rather than the

order outlined in the master plan. The board maintained no documentation of this change in plans and the decision was not recorded in the board meeting minutes. Additionally, while an amendment was made to the master plan in January 2003 increasing the pipe sizes for the loop project, the district did not revise the cost estimates. Also in 2003, the district decided to extend water service to a northern section of the district, which was not included in the 2002 Master Plan. Cost estimates for this additional phase of the project, which subsequently cost approximately \$155,000, were not added to the master plan.

The board's changes to its capital improvement plans should be documented in amendments to the plan or in the board meeting minutes to provide an official record of the board's intentions and to allow for public disclosure of the plans. Also, complete documentation of construction plans and cost estimates allows for better monitoring of project progress.

WE RECOMMEND the Board of Directors:

- A. Include estimated construction costs in the annual budget or consider budgeting capital improvement projects separately. In addition, documentation should be maintained to support comparisons of actual and estimated costs of the project.
- B. Document changes to the capital improvement plans in amendments to the plan or in the board meeting minutes.

AUDITEE'S RESPONSE

The District will make separate notations in its annual budget to reflect capital improvement projects and will document any changes or amendments to the capital improvement plans.

3.

Budgets

The district did not prepare complete budgets as required by state law and the district's actual expenses exceeded budgeted amounts.

- A. The budgets prepared for the years ending December 31, 2006 and 2005 did not include a budget message or the beginning cash balance and estimated ending available resources. Additionally, as noted in MAR finding number 1 and 2, the budget did not contain estimates of capital improvement costs and litigation expenses and actual costs for these items were also omitted from the budgets.

Section 67.010, RSMo, requires the preparation of an annual budget, and Sections 67.010 to 67.080, RSMo, set specific guidelines for the format, approval, and amendments of the annual operating budget. A complete budget should include a budget message, beginning and estimated ending available resources, and estimates of capital improvement costs and litigation expenses.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific costs and revenue expectations for each area of district operations and provide a means to effectively monitor actual costs and revenues. It will also assist in informing the public about the district's operations and current finances.

- B. Actual expenditures reported on the December 31, 2005 income statement, exceeded budgeted amounts for the year ended December 31, 2005 by approximately \$58,000. Budget to actual data is tracked on the monthly income statement, which includes year to date activity. Actual litigation costs are included on the income statement, although litigation costs were not included on the original budget as they should have been which at least in part caused the overspending. We also noted some other budgeted amounts on the income statement analysis that differed from the original budgeted amount, and no amendments to the 2005 budget were prepared. The budgeted amounts presented on the income statement should be the amounts formally adopted by the board and the actual expenditures should include all expenditures made by the board. By including line items in the budget to actual report that were not originally budgeted or changing the budgeted amount, it is difficult to tell if the boards' projections in the budget were accurate.

Section 67.040 RSMo, indicates a political subdivision shall not increase the total amount authorized for disbursement from any fund, unless the governing body adopts a resolution documenting the reasons making the increase necessary and approves or adopts a resolution to authorize the disbursements. To ensure the board can adequately monitor budget to actual data throughout the year, the budgeted figures used in monitoring activity should agree to the authorized budget amounts from the original budget.

WE RECOMMEND the Board of Directors:

- A. Ensure complete and accurate budgets are prepared annually in accordance with state law.
- B. Ensure budget figures used to monitor actual expenditures agree to budgeted amounts and total actual expenditures do not exceed budget.

AUDITEE'S RESPONSE

The budget of the District will include a beginning cash balance and estimated ending available resources, and the District will continue to diligently monitor the expenditures made as they relate to the budget. Obviously, with any budget for any entity, unexpected expenditures will surely arise and the District will continue to deal with those events with a goal toward avoiding having total expenditures exceed the total budgeted amount. That has not occurred thus far in 2006 and the District does not anticipate at this time that it will.

Open meeting minutes sometimes did not document the specific reason for going into closed session, the closed session minutes sometimes did not document the issues discussed, and the board minutes are not signed by a board member.

- A. Closed session meeting minutes were maintained, but were generally limited to a vote to adjourn and lacked detail of the topics discussed and votes taken. In addition, open session minutes did not always document the specific reason to go into a closed session.

Chapter 610, RSMo (The Sunshine Law) requires governmental bodies to prepare and maintain minutes of open and closed meetings, and specifies details that must be recorded. Minutes are required to include, but not limited to, the date, time, place, members present, members absent, and a record of votes taken. The Attorney General's Sunshine Law booklet advises governmental bodies to keep minutes of the discussion that takes place during meetings, especially closed sessions. Complete and accurate minutes are necessary to retain a record of the business conducted and actions taken by the commission. In addition, Chapter 610, RSMo states the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session.

- B. Board minutes are not signed by a board member. The minutes are prepared and signed by the clerk, and while the minutes indicate the board has reviewed and approved the previous meeting minutes, none of the board members signs the minutes. The board meeting minutes should be signed by the board president or another board member to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.

WE RECOMMEND the Board of Directors:

- A. Ensure the minutes and agenda state the specific reasons for going into a closed session, as required by state law, and ensure minutes of the closed meetings are maintained.
- B. Ensure minutes are signed by the board president or another board member.

AUDITEE'S RESPONSE

The requirements that public entities maintain minutes of closed meetings has only existed under Missouri law since 2004, and since that time the District has endeavored to prepare and retain such minutes. The District's agendas reflect the reasons why a meeting may go into closed session, and on March 15, 2006, the District amended its rules and regulations to require the presiding officer of the meeting to sign the minutes.

The district does not have a formal bidding policy and duties related to the district's water billing system are not adequately segregated.

- A. The district does not have a formal bidding policy. As a result, the decision of whether to solicit bids/proposals for a particular purchase is made on an item-by-item basis. During 2005, bids were not solicited for lawn mowing services totaling approximately \$5,500. Bids were also not taken for the lease purchase of a \$65,000 backhoe in 2003. Additionally, there was no documentation explaining why the district did not accept the lowest bid for road boring services bid in 2005, which was \$60 per lineal foot. The bid accepted was \$82 per lineal foot, and this company was paid approximately \$11,000 for road bores.

Formal bidding procedures provide a framework for the economical management of district resources and help ensure the district receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the district's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids/proposals received and reasons noted why the bid/proposal was selected.

- B. There is no independent oversight or adequate segregation of duties related to the district's water billing system. The office manager performs all functions related to generating monthly water bills; receiving, recording and depositing water payments; approving and making adjustments; and producing various reports. He occasionally is assisted by the part-time district clerk in recording and depositing payments. There is no documented independent review by the board of these activities or reports. The district's water sales revenues totaled approximately \$480,000 for the year ended December 31, 2005.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are properly accounted for and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing monies from that of generating bills, recording payments and following up on delinquent accounts. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations between water payments and deposits, and an independent review and approval of credit adjustment and delinquent account follow-up.

WE RECOMMEND the Board of Directors:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected.
- B. Segregate the duties of receipting and depositing monies from that of preparing bills and recording payments. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent board review of the reconciliations between water payments and deposits, and an independent board review of and approval for credit adjustments and delinquent accounts follow-up.

AUDITEE'S RESPONSE

On March 15, 2006, the District amended its rules and regulations adopting a formal bidding process.

Given that the District employs only one office manager (full time) and assistant (part time), achieving a full segregation of duties is difficult. However, the District prepares a detailed monthly analysis of all receipts and deposits which are reviewed by board members. Further, all bank statements and cancelled checks are mailed direct from the bank to the District president for review.

Additionally, each year independent auditors review the financial records and accounting practices of the District. Neither the independent auditor nor the State Auditor has found any discrepancies or concerns arising from the actual receipt and deposit of District monies, the preparation of bills or the recording of payments.

6. Payroll and Personnel Procedures
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The board does not formally document its approval of employee salaries, some employees do not prepare time sheets, and records of employee leave balances are not maintained.

- A. The board does not always document its approval of employee salaries, additions, and pay raises. Salaries for the office manager, clerk, and plant manager were included in the budget; however, capital improvement costs were not included in the 2005 budget and consequently, there was no documented board approval for the 2005 salaries for the construction employees, which totaled approximately \$78,000 for the year ended December 31, 2005. Also, formal board approval for the addition of two construction employees and pay increases in 2005 for two other employees was not documented.

The board should maintain formal documentation of its approval for employee salaries, additions and pay raises to serve as its written authorization for district personnel and their salaries.

- B. The plant manager and office manager do not prepare time sheets. Time sheets are necessary to document hours actually worked, to substantiate payroll expenditures and to provide the board with a method to monitor hours worked. To support payroll expenses, the district should require all employees prepare detailed time sheets that are reviewed and approved by the board or supervisor.
- C. The district does not maintain current records of vacation, sick leave, and compensatory time earned, taken, or accumulated for each employee. The office manager tracks the leave balances of the construction foreman but has not updated this record since January 2005. The district has no record of leave for its two other full-time employees. Without an accurate record of leave accruals, the district has little assurance that employee's using leave have sufficient balances available.

Adequate documentation of vacation, sick leave, and compensatory time earned, taken, and accumulated is necessary to ensure leave time used is not in excess of time accumulated. Leave records will also aid the district in determining unused vacation leave upon termination of employment.

WE RECOMMEND the Board of Directors:

- A. Ensure written authorizations for employee salaries, additions, and pay increases are maintained.
- B. Require all district employees prepare time sheets reflecting actual time worked. In addition, the time sheets should be signed by the employee and approved by the board or supervisor.
- C. Maintain current records of vacation, sick leave, and compensatory time earned, taken, and accumulated balances.

AUDITEE'S RESPONSE

On March 15, 2006, the District amended its rules and regulations to provide that all pay rates and raises of District employees be documented in the minutes of the District. The District will maintain records reflecting vacation, sick leave, and compensatory time, if any, earned. The District, however, given the limited staff and the other requirements placed upon the staff, does not believe at this time requiring the staff to keep detailed time sheets would be an appropriate expenditure of effort. If the District becomes aware that the job duties and responsibilities of its employees are not being fulfilled, which is not the case at this time, the District may revisit the issue of detailed time sheets.

The district does not maintain complete and detailed records for its equipment and office furniture and does not require usage logs for its trucks and backhoe.

- A. The district does not maintain complete and detailed records for its capitalized equipment and office furniture or perform annual inventories of its equipment. The financial statements presented in the independent audit report for the year ended December 31, 2004, showed district equipment totaling approximately \$350,000. A listing of capitalized equipment is maintained by the districts' auditor, which is updated each year to include any items purchased or disposed of by the district; however, this listing lacks detail and does not include the location of the various assets. This listing includes 8 different entries titled equipment or tools, totaling almost \$8,000, for which the district maintains no detailed records supporting the individual assets making up those groupings. In addition, district equipment is not tagged to identify it as district property. Failing to maintain detailed records of capitalized assets, including location, does not allow for annual inventories of capital assets. A lack of adequate controls over capital assets increases the likelihood of misuse or theft of district assets.

Equipment records should be maintained on a perpetual basis, accounting for equipment acquisitions and dispositions as they occur. The records should include a detailed description of the assets including the name, make and model numbers, asset identification numbers, the physical location of the assets, and the date and method of disposition of the assets. All property items should be identified with a tag or other similar device, and the district should conduct annual physical inventories and compare to the detailed records.

- B. The district does not maintain usage logs, including maintenance information and fuel usage, for its three trucks and one backhoe. Fuel is purchased using charge cards which are kept in each vehicle, and fuel and oil purchases during the year ended December 31, 2005 totaled approximately \$6,000. The district manager indicated maintenance costs for vehicles could be tracked through the vendor invoice files, but specific maintenance costs for each vehicle are not tracked. Without adequate usage logs, the district cannot effectively monitor that vehicles are used for official business only, that maintenance and fuel costs for vehicles are reasonable, and that fuel and maintenance billings to the district represent legitimate and appropriate charges.

Vehicle usage logs should include trip information (i.e., employee, dates used, beginning and ending odometer readings, destination, and purpose) and operating costs information (fuel and maintenance). These logs should be reviewed by a supervisor to ensure vehicles are used only for district business and evaluate operating costs. In addition, information on the logs should be reconciled to fuel and maintenance billings received by the district.

WE RECOMMEND the Board of Directors:

- A. Maintain complete and current equipment records that include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. Additionally, annual physical inventories should be performed and compared to the detailed records.
- B. Require usage logs for the trucks and backhoe, which contain maintenance and fuel costs.

AUDITEE'S RESPONSE

On March 15, 2006 the District amended its rules and regulations to provide for the listing and identification of all District property and the annual updating thereof. It also calls for the preparation and retention of maintenance logs on all vehicles.

The District has appreciated the professionalism of the staff of the State Auditor's Office in conducting this audit. The District, as should any public entity, appreciates the view of a disinterested eye which can point out details that may have been overlooked. The District believes that while it has always sought to protect the interest of its customers first and foremost, recognizes that the auditor's report offers suggestions and recommendations that enable the District to do the job even better. For this the District is grateful.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CLAY COUNTY PUBLIC WATER SUPPLY DISTRICT #8
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Clay County Public Water Supply District #8 was incorporated in 1967 and serves approximately 810 customers.

The Board of Directors consists of five members who serve three-year terms. The Board elects a President and Vice-President from the board membership. The board members serve without compensation. The Board of Directors and other principal officials during the year ended December 31, 2005, are identified below.

Elected Officials	Dates of Service During the Year Ended December 31, 2005	
David Faltys, President	January 2005 – December 2005	
Roy Freeman, Vice-President (1)	January 2005 – December 2005	
Curtis Campbell (2)	January 2005 – December 2005	
Dan Miller	April 2005 – December 2005	
Allan Tison	April 2005 – December 2005	
Brian Lawrence	January 2005 – April 2005	
Jennifer Kelly	January 2005 – February 2005	
		Compensation Paid for the Year Ended December 31, 2005
Other Principal Officials	Dates of Service During the Year Ended December 31, 2005	
Ron Foster, Office Manager	January 2005 – December 2005	\$ 40,000
Sam Hatheway, Plant Manager	January 2005 – December 2005	38,792
Joshua Edson, Construction Foreman	January 2005 – December 2005	31,798

(1) Re-elected in April 2006

(2) Gene Milsap was elected in April 2006

In addition to the officials identified above, the district employed one part-time clerical employee and two full-time temporary construction employees at December 31, 2005. The temporary construction employees were laid off on January 1, 2006.