



Susan Montee, CPA  
Missouri State Auditor

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# Mountain Grove Special Road District



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Office of the  
Missouri State Auditor  
Susan Montee, CPA

March 2009

The following findings were included in our audit report on the Mountain Grove Special Road District.

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A number of transactions, which gave the appearance of a conflict of interest, were noted and the district did not retain documentation to show how these purchases had been bid or price comparisons had been completed.

The district does not have formal bidding policies, and bids were not solicited for various purchases. Vendor invoices or other supporting documentation was not retained for 11 of the 40 disbursements reviewed totaling \$89,223. District checks were not always signed by the president or vice president and the secretary/treasurer of the board as required by state law, and checks are regularly signed in advance by the special road district commissioners. The district loaned an employee \$2,002 to purchase a used dump truck from the district, in apparent violation of the Missouri Constitution.

The district considers the secretary/treasurer and assistant secretary to be independent contractors; however, it appears these individuals should be treated as employees. Employee paychecks are not kept in a secure location prior to distribution. The district has not established a personnel policy to address various personnel issues.

The district's 2008 and 2007 budgets were not accurate and complete, and the 2008 budget was not approved by the board until March 2008. The road district does not furnish disbursement information to Wright County for publication of the road district's financial statement. An annual maintenance plan has not been prepared to document expected work on the district's roads and bridges, and the district has accumulated a significant cash balance without any specific documented plans for its use. The district does not maintain a listing or map of public roads under its legal authority, and as a result, it is unclear which roads the district is responsible for maintaining. In addition, the district performed maintenance on two private roads.

The district does not have formal written policies regarding the sale and installation of culverts, and it has not evaluated whether the price charged to district residents is sufficient to cover the cost of installation. Records are not maintained to document culverts sold to ensure amounts are billed to applicable residents, and inventory records are not maintained to account for supplies and materials purchased or stored for the daily operations of the district.

Also included in the report are additional recommendations related to disbursements and payroll, and recommendations related to accounting controls and procedures, oaths of office and candidate filing for elections, Sunshine Law compliance, and property procedures and records.

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YELLOW SHEET

MOUNTAIN GROVE SPECIAL ROAD DISTRICT

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STATE AUDITOR'S REPORT



**SUSAN MONTEE, CPA**  
**Missouri State Auditor**

To the Board of Commissioners  
Mountain Grove Special Road District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Mountain Grove Special Road District. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2007. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the district has adequate internal controls over significant management and financial functions.
3. Determine if the district has complied with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the district, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those 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. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and

circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

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 our audit of the district.

The accompanying Management Advisory Report presents our findings arising from our audit of the Mountain Grove Special Road District.



Susan Montee, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Alice M. Fast, CPA, CIA, CGFM  
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MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

MOUNTAIN GROVE SPECIAL ROAD DISTRICT  
MANAGEMENT ADVISORY REPORT-  
STATE AUDITOR'S FINDINGS

<b>1. Potential Conflicts of Interest</b>
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A number of transactions were noted between the district and special road district commissioners, employees, and relatives of appointed personnel for purchases of goods, services, and sales of equipment.

- The district purchased a 120 gallon fuel tank from an employee for \$450 in March 2006.
- The district purchased a cabinet and 89 pounds of welding rod from the secretary/treasurer in November 2006 for \$221.
- The district purchased a set of forks for a fork lift from a commissioner in January 2007 for \$200. The forks were adapted by the district to be used on a district owned loader.
- The district disbursed approximately \$400 during the year ended December 31, 2007, for legal fees to a firm in which the secretary/treasurer's son is a partner. The secretary/treasurer indicated the district has used this firm since the district formed in 1993 when the secretary/treasurer's husband was president of the board.

The district did not retain any documentation to show these purchases had been bid or price comparisons had been completed. In addition, district minutes did not document the board's approval to purchase the forks from the commissioner.

- The district sold a tractor and a backhoe to employees for \$50 and \$1,850, respectively, in April 2006.
- The district sold an oil tanker truck to an employee in March 2007 for \$500.

Meeting minutes prior to these sales indicate the district advertised for bids, but no bids were received. However, the district did not document any price comparisons to ensure the amounts received were fair and reasonable.

- A bid received from an employee for the purchase of a dump truck owned by the district had been altered. In April and May 2007, the district advertised for sealed bids for the dump truck, and three bids were subsequently received. The board awarded the high bid to an employee for \$2,002; however, the employee's original bid of \$2,000 was written over in a different style of handwriting and changed to \$2,002. The second highest bidder submitted a bid of \$2,001. It was not clear

who altered the original bid document. Altering sealed bid documents circumvents the sealed bid process and equitable treatment of bidders.

Officers and employees of a special road district serve in a fiduciary capacity. Personal interests in business matters of the district could create the appearance of conflicts of interest. The Missouri Supreme Court has stated "A public officer owes an undivided loyalty to the public whom he serves and he should not place himself in a position which will subject him to conflicting duties or expose him to the temptation of acting other than in the best interests of the public..." State vs. Cumpton, 240 S.W. 2d 877, 886 (Mo banc. 1951).

In addition, Sections 105.454 and 105.458, RSMo, prohibit financial transactions between the district and elected or appointed officials or employees which involve more than \$500 unless there has been public notice to solicit proposals and competitive bidding.

To reduce the appearance of conflict of interest and to ensure full compliance with state law, the board should obtain bids in situations where products or services are bought or sold by elected or appointed officials or employees. In addition, road district officials should abstain from any type of involvement in district decisions which relate to themselves, employees, or relatives. Discussions and decisions concerning transactions where a potential conflict of interest exists should be completely documented to provide assurance no district official, employee, or relative has profited improperly. The board should also consider establishing a policy which addresses these types of situations and provides a code of conduct for district officials and employees.

**WE RECOMMEND** the Board of Commissioners more closely examine district transactions to identify and avoid apparent and actual conflicts of interests. District officials and employees who have a conflict which is unavoidable should fully disclose their interests. Such matters and transactions should be completely documented so the public has assurance no commissioner or employee has profited improperly. The board should ensure strict compliance with the law when conducting district business and establish a policy that addresses these issues. In addition, the board should ensure bid documents are not altered.

### **AUDITEE'S RESPONSE**

*The Board of Commissioners provided the following response:*

*Steps have been taken to avoid these situations in the future.*

**2.**

### **Disbursements and Written Agreements**

The district does not have formal bidding policies, and bids were not solicited for various purchases. Documentation of the board's review of invoices is not maintained, and

adequate supporting documentation is not available for some disbursements. The district did not retain a copy of a warranty agreement for a recently purchased road grader and did not adequately track costs covered by the warranty. Several concerns were noted regarding the signing of checks. Fuel usage logs are not maintained for the district's equipment and vehicles. The district has not established policies for mileage reimbursements paid to special road district commissioners and employees. The district did not always enter into written contracts, loaned an employee \$2,002 in May 2007 in an apparent violation of the Missouri Constitution, and has not periodically solicited proposals from banking institutions for the deposit of district monies.

- A. The district does not have formal bidding policies. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Bids were not solicited or bid documentation was not retained for the following purchases during the 2 years ended December 31, 2008:

Items Purchased	Cost
Fuel (2007)	\$ 16,732
Used dump truck	9,500
Tractor and brush cutter	8,800
Property insurance	5,693
Culverts	5,292
Diesel engine repairs	5,180
Used roller	5,000
Workman's compensation insurance	3,950
3/8 inch rock	3,038
Equipment repairs	1,267
Roller parts	851
Radiator repairs	688
Radios	627

In addition, the district solicited bids for asphalt mix and pea gravel, but did not document why the lowest bidder was not selected. As a result of not using the lowest bidders, the district spent \$928 more than the lowest bid for asphalt mix in June 2008 and \$600 more than the lowest bid for pea gravel in September 2008.

Also, the district did not always ensure it paid the bid price for road oil. For example, the district ordered road oil on August 2, 2007, and paid \$645 more than the bid price. The district later ordered road oil on August 16, 2007, and paid the bid price.

Formal bidding procedures for major purchases provide a framework for economical management of the district's resources and help ensure the district receives a fair value by contracting with the lowest or best bidder. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the district's business. Various approaches are appropriate, based on dollar

amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids and proposals received and the reasons why a bid or proposal was selected. In addition, the district should ensure it is not billed for more than the bid price agreed upon.

- B. The board indicated invoices are reviewed at each board meeting; however, documentation of this review is not maintained and a listing of invoices is not prepared for the board's review. To adequately document the board's review and approval of all disbursements, a complete and detailed listing of invoices should be prepared, signed or initialed by the board to denote its approval, and retained with the official minutes.
- C. Vendor invoices or other supporting documentation was not retained for 11 of the 40 disbursements reviewed totaling \$89,223. These disbursements included purchases of equipment and gravel. In addition, an employee was reimbursed \$100 for the repair/replacement of a trailer tire without being required to submit a paid receipt verifying the amount disbursed. All disbursements should be supported by a vendor invoice or other related supporting documentation to ensure the obligation was actually incurred.
- D. The district did not retain a copy of a warranty agreement for a recently purchased road grader and did not adequately track costs covered by the warranty. As a result, the district paid \$30,247 in August 2007 for repairs to a grader that should have been primarily covered by the warranty agreement. Subsequently in October 2007, the equipment company identified the error and issued the district a refund of \$29,687 for repairs covered under the warranty. Warranty agreements should be retained and tracked by the district to ensure unnecessary costs are not incurred.
- E. Controls over district checks need improvement.
  - 1) Many checks were not signed by the president or vice president and the secretary/treasurer, and a special road district commissioner, who was not the president or vice president of the board and did not have authority to sign checks, signed several checks. Section 233.335.5, RSMo, requires all checks to be signed by the president or the vice president and the secretary (2 signatures required). -
  - 2) The district sometimes issued (and the district's bank processed) checks with only one signature although dual signatures are required. The district issued 6 checks totaling \$5,186 in September 2008 with only one commissioner's signature (the commissioner who does not have signature authority). Dual signatures help provide assurance that checks represent payment for legitimate district disbursements.

3) Checks are regularly signed in advance by the special road district commissioners. Signing checks in advance is a serious control weakness and significantly increases the risk of improper disbursements or loss due to misappropriation. In addition, disbursements should not be approved for payment and the applicable checks signed prior to a review of the supporting documentation.

F. Fuel and usage logs are not maintained for the district's equipment and vehicles. As a result, fuel usage is not reconciled to fuel purchases. The district has a metered diesel tank and an unleaded fuel tank at the maintenance facility. During the year ended December 31, 2007, the district spent \$16,732 for fuel.

Fuel and usage logs are necessary to document the appropriate use of equipment and vehicles and to also support fuel charges. The logs should include the date, driver, purpose, and destination of each trip; daily beginning and ending odometer or hour readings for vehicles and equipment; maintenance and safety inspections performed; and amount of fuel pumped. The logs should then be reconciled to fuel purchases. Failure to account for fuel purchases could result in loss, theft, and misuse going undetected.

G. The district has not established policies for mileage reimbursements paid to special road district commissioners. Special road district commissioners are reimbursed for mileage traveled; however, they are not required to maintain mileage logs showing the purpose, date, beginning and ending odometer reading, and destination. The special road district commissioners only document the number of miles traveled on a piece of paper or verbally request an amount to be reimbursed from the district secretary/treasurer. Documentation of the verbal request is not maintained by the secretary/treasurer.

Internal Revenue Service (IRS) Regulations require expenses not accounted for to the employer be considered gross income and payroll taxes be withheld from the undocumented payments. Therefore, these reimbursements should be considered gross income to the commissioners.

In addition, the district has not established a standard mileage reimbursement rate, and as a result, the mileage rate paid varied between reimbursements. One road commissioner was reimbursed at the rate of 55 cents per mile while another commissioner was reimbursed at 44.5 cents per mile.

To ensure reimbursement requests are reasonable and represent valid disbursements, a written policy should be adopted to require specific information be included on mileage reimbursement requests, such as dates, total miles driven, destinations, and purpose of official district business. The policy should also establish mileage rates to be reimbursed.

- H. The district did not enter into written contracts with a law firm for legal services and two individuals providing accounting services. The district paid \$423 and \$6,083 for legal and accounting services, respectively, during the year ended December 31, 2007.

Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Written contracts, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Also, Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

- I. The district loaned an employee \$2,002 in May 2007 to purchase a used dump truck from the district in an apparent violation of the Missouri Constitution. In addition, the district did not enter into a written agreement with the employee. The employee issued a \$1,000 check to the district in May 2007, as a deposit (which was held by the district and never cashed and appears to have not been a valid check). The district returned the check to the employee when the balance of the dump truck was paid in full in October 2007. The employee made payments ranging from \$110 to \$1,592 from June through October 2007.

This employee loan appears to violate Article VI, Section 23 and 25, of the Missouri Constitution, which prohibits the loaning or granting of public funds to any private individual. In addition, it is unclear why the district did not deposit the employee's \$1,000 deposit, and refund the deposit when the balance due was paid in full.

- J. The district has not periodically solicited proposals from banking institutions for the deposit of district monies. A periodic evaluation of proposals from various banking institutions would provide the board with current information for making sound banking decisions.

**WE RECOMMEND** the Board of Commissioners:

- A. Establish a formal bidding policy and related procedures. Complete documentation of the bidding process should be maintained, including all bids received and justification for selecting and rejecting bids.
- B. Ensure the approval of disbursements is adequately documented by including a signed listing of all approved disbursements in the board minutes.
- C. Require adequate supporting documentation for all disbursements.
- D. Ensure warranty agreements are retained and adequately tracked.
- E. Ensure the board president or vice president and secretary sign all checks and prohibit the practice of signing checks in advance.

- F. Require usage logs be maintained for all district owned vehicles and equipment, and fuel logs be reconciled to fuel purchases. A periodic review should be performed to ensure the reasonableness of the fuel purchases and usage. In addition, all reviews and reconciliations should be documented.
- G. Develop and enforce a mileage reimbursement policy.
- H. Enter into written agreements with all parties that clearly detail the services to be performed and the compensation to be paid or benefits received.
- I. Discontinue the practice of making employee loans.
- J. Solicit proposals from various banking institutions on a periodic basis.

**AUDITEE'S RESPONSE**

*The Board of Commissioners provided the following responses:*

- A. *We will establish a bid policy and document justification for emergency purchases in the future.*
- B,F  
&J. *We have implemented these recommendations.*
- C. *We will try to keep all documentation in the future.*
- D. *This is the only warranty we have. We will request a copy for our records.*
- E. *We will ensure checks are properly signed and establish a policy for emergency situations.*
- G. *We will establish a standard rate and will provide adequate documentation.*
- H. *We will obtain a written agreement for legal services. Our accounting services will be considered employees in the future.*
- I. *We will not provide employee loans in the future.*

<b>3. Payroll Controls and Procedures</b>
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The district considers the secretary/treasurer and assistant secretary to be independent contractors; however, it appears these individuals should be treated as employees, timecards should be prepared, and payroll taxes withheld. Employee paychecks are not kept in a secure location prior to distribution. The district has not established a personnel policy to address various personnel issues. Personnel files and employee withholding

forms are not maintained for district employees, and timecards are not signed by the employee and their supervisor.

- A. The district considers the secretary/treasurer and her assistant to be independent contractors; however, these individuals appear to be employees as the district controls and directs their work. In addition, written contracts were not entered into with these individuals, and IRS Forms 1099 were not issued. Also, the secretary/treasurer does not submit a bill for payment, and the assistant submits a timecard for payment. Timecards should be prepared for these employees and payroll taxes withheld. In addition, prior years W-2 Forms should be filed as applicable. The district paid the secretary/treasurer and assistant secretary \$5,525 and \$558, respectively, during the year ended December 31, 2007.

The IRS Code contains specific instructions regarding the treatment of an employee versus an independent contractor. The failure to correctly identify and handle such arrangements may result in noncompliance with the Fair Labor Standards Act and failure to properly withhold and submit payroll taxes.

- B. Employee paychecks are not kept in a secure location prior to distribution. The secretary/treasurer places each employee paycheck in an envelope marked with the employee name. These envelopes are placed in a folder (which is taped to the secretary/treasurer's front door the evening before pay day) and left unsecured overnight. To ensure paychecks are not lost or stolen, paychecks should be kept in a secure location until distributed to employees.
- C. The district has not established a personnel policy to address various personnel issues. As a result, employees were not always treated equitably. For example, new employees of the district are required to prepare an application for employment and pass a pre-employment drug screening before they are hired; however, an employee who began working for the district in October 2007, did not complete an application for employment or a pre-employment drug screening test. A drug screening test was not conducted until four months after his employment date.

Additionally, an employee was permitted to rent a district owned grader to use on personal property for a fee of \$75; however, another employee was terminated for using a grader on personal property.

The secretary/treasurer indicated the district refers to Wright County's personnel manual for guidance on some personnel matters; however, it has not formally adopted any of those policies.

A written personnel policy for all employees is necessary to ensure equitable treatment among employees and the avoidance of misunderstandings.

- D. Personnel files and employee withholding forms are not maintained for district employees. Personnel files should be maintained for all employees to provide documentation of personnel actions and to provide readily accessible work histories. The personnel files should contain documentation of the board's authorization for the hiring of the employee, the pay rate at which the employee was hired, and any subsequent changes in pay rate. In addition, the IRS requires employers to ensure a Form W-4 is completed by each employee to support payroll withholdings and taxes.
- E. Timecards are not signed by employees and their supervisors. To document hours actually worked and substantiate payroll disbursements, timecards should be prepared and signed by all district employees and include documentation of supervisory approval.

**WE RECOMMEND** to the Board of Commissioners:

- A. Ensure individuals working for the district are treated as employees. The board should ensure timecards are prepared and payroll taxes are properly withheld. In addition, prior years' W-2 Forms should be filed as applicable.
- B. Ensure payroll checks are kept in a secure location until distributed to employees.
- C. Establish a written personnel policy and treat all employees equitably.
- D. Ensure personnel files are maintained for all district employees and all employees prepare a W-4 Form.
- E. Ensure timecards are signed by both the employee and the employee's supervisor.

**AUDITEE'S RESPONSE**

*The Board of Commissioners provided the following responses:*

- A. *We will consider the Secretary/Treasurer and her assistant employees in the future.*
- B-E. *We have implemented these recommendations.*

<b>4.</b>	<b>Accounting Controls and Procedures</b>
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Accounting duties are not adequately segregated, and the secretary/treasurer is not adequately bonded. Several problems were identified regarding controls over receipts and monies received were not always deposited timely.

- A. Accounting duties are not adequately segregated. The district secretary/treasurer is responsible for all record keeping duties for the district including receiving and

depositing monies, preparing and distributing checks, recording receipts and disbursements, signing checks, and reconciling bank accounts. The secretary/treasurer has a paid assistant who records all meeting minutes and occasionally pays bills.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurances that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving, recording, and disbursing monies from reconciling accounting records to bank statements. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent review of bank reconciliations, a reconciliation of receipts and deposits, and a comparison of invoices and disbursements.

- B. The district secretary/treasurer is not adequately bonded. Section 233.335.2 RSMo, requires the treasurer to submit a bond of double the amount of all monies likely to come into her hands by virtue of her office. The secretary/treasurer is bonded for \$250,000. District revenues were approximately \$288,000 and \$274,000 during the years ended December 31, 2007 and 2006, respectively, which would require a bond of at least \$548,000. Failure to properly bond all persons with access to assets exposes the district to risk of loss.
- C. Receipt slips are not issued for most monies received, and receipt slips are not always issued in numerical order or accounted for properly. In addition, the method of payment is not indicated on all receipt slips and the composition of receipt slips is not reconciled to the composition of deposits. Only 7 receipt slips were issued for district business during the period January 1, 2006 through September 2008. Also, 52 receipt slips had been torn out of the receipt book and discarded. Further, the secretary/treasurer uses the same receipt book for her personal business.

Without issuing and accounting for official prenumbered receipt slips for all monies collected and reconciling the composition of receipts to the composition of deposits, the district cannot ensure all monies collected are ultimately deposited. In addition, all copies of voided or blank receipt slips should be properly mutilated and retained.

- D. Monies received are not always deposited in a timely manner. For example, a bill of sale for a truck sold to an employee for \$500 was completed on March 2, 2007; however, the monies were not deposited until March 21, 2007, 19 days later. To adequately account for receipts and reduce the risk of loss or misuse of funds, monies should be deposited in a timely manner.

**WE RECOMMEND** the Board of Commissioners:

- A. Segregate accounting duties to the extent possible and ensure periodic supervisory reviews are performed and documented.
- B. Require the secretary/treasurer to submit a bond in compliance with state law.
- C. Properly account for the numerical sequence of official receipt slips issued, ensure the method of payment is indicated on all receipt slips, reconcile the composition of receipts to the composition of amounts deposited, maintain original copies of all receipt slips, and discontinue using district receipt slips for personal use.
- D. Ensure all receipts are deposited on a timely basis.

**AUDITEE'S RESPONSE**

*The Board of Commissioners provided the following responses:*

*A&B. We have implemented these recommendations.*

*C&D. We will implement these recommendations.*

<b>5. Budgets, Published Financial Statements, and Road Maintenance</b>
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The district's budgets were not always accurate and complete, and the 2008 budget was not approved by the board until March 2008. The road district does not furnish disbursement information to Wright County for publication of the road district's financial statement. An annual maintenance plan has not been prepared to document expected work on the district's roads and bridges, and the district has accumulated a significant cash balance without any specific documented plans for its use. The district does not maintain a listing or map of public roads under its legal authority, and as a result, it is unclear which roads the district is responsible for maintaining. In addition, the district performed maintenance on two private roads.

- A. The district's 2008 and 2007 budgets were not accurate and complete. For example:
  - Actual disbursements in 2007 were understated by \$4,048 on the 2008 budget.
  - The 2008 and 2007 budgets did not contain a budget message.
  - Documentation of a public hearing for the adoption of the district's 2008 and 2007 budgets was not maintained.

Sections 67.010 to 67.040, RSMo, establish specific guidelines as to the format and approval of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of road district operations and provides a means to effectively monitor actual costs and revenues. The budget should contain a budget message describing the important features of the budget and any major changes from the preceding year. A public hearing should be held on the adoption of a budget to obtain input from district residents.

- B. The 2008 budget was not approved by the board until March 2008. Section 67.070, RSMo, requires if a new budget is not adopted by the beginning of the new year then the board should operate under the prior year's budget. To be of maximum benefit to the taxpayers and the district, the budget should be adopted in a timely manner.
- C. The road district does not furnish disbursement information to Wright County for publication of the road district's financial statement. Wright County publishes the county treasurer's receipts from the county collector and distributions to the road district; however, detailed information regarding actual road district disbursements is not provided. Identifying disbursements by vendor and purpose for inclusion in the published financial statements would provide taxpayers more relevant information.
- D. An annual maintenance plan has not been prepared to document expected work on the district's roads and bridges. In addition, the district has accumulated a significant cash balance without any specific documented plans for its use. At December 31, 2007, the district had a balance of \$189,797 and approximately \$95,000 in disbursements were processed through the district during the year ended December 31, 2007. The district's budget document presents proposed activities in general categories which contain significant dollar amounts; however, it does not provide details regarding specific projects or plans. Specific projects are also not documented in district minutes or made available to the public.

A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the road and bridges to be worked on, the type of work to be performed, cost estimates, the dates such work could begin, and other relevant information. Further, the district should review the balance of funds, consider future needs, and document a plan for disbursing monies. The plan should be referred to in the budget message and approved by the board. In addition, the board should consider holding a public hearing to obtain input from residents. Such a plan would serve as a useful management tool, encourage greater input into the overall budgeting process, and provide a means to continually and more effectively monitor and evaluate repair and maintenance projects throughout the year.

- E. The district does not maintain a listing or map of public roads under its legal authority, and as a result, it is unclear which roads the district is responsible for maintaining.

In addition, the district performed maintenance on two private roads (Oak Way Drive and a portion of Countryside Lane, which is also called Gasperson Road). Chapter 228, RSMo, details the petition process that is required to make a private road a public road. This process includes a requirement that the petition application be filed with the County Commission. However, neither the district nor the county had any documentation available to support the petition process had been performed for Oakway Drive and the portion of Countryside Lane/Gasperson Road.

Special road districts do not have the authority to maintain private roads. Chapter 233.340.3, RSMo, states the special road district commissioners shall have sole, exclusive, and entire control and jurisdiction over all public highways, bridges, and culverts, other than those controlled by the highways and transportation commission, within the district, to construct, improve, and repair such highways, bridges, and culverts.

A listing and map of all public roads within the district should be established to ensure public funds are not disbursed to maintain private roads.

**WE RECOMMEND** the Board of Commissioners:

- A. Prepare complete and accurate budget documents and ensure budget hearings are held to obtain input from road district citizens.
- B. Ensure budgets are prepared timely and in compliance with state law.
- C. Furnish Wright County disbursement totals by vendor and purpose for publication of the annual financial statement.
- D. Establish a formal annual maintenance plan for district roads and bridges, and review the cash balance, consider the district's future needs, and document plans for disbursing the monies in the budget message and maintenance plan.
- E. Establish a listing and map of all public roads within the district and ensure maintenance is performed only on public roads.

## **AUDITEE'S RESPONSE**

*The Board of Commissioners provided the following responses:*

- A. *We will hold a public hearing in the future. We have added a budget message for our 2009 budget, and we will take steps to ensure actual numbers recorded on the budget are correct.*
- B&D. *These recommendations have been implemented.*
- C. *We will work with Wright County to do this in the future.*
- E. *We have established a map of roads and will seek legal counsel regarding obtaining legal authority for the maintenance of roads already being maintained by the district.*

<b>6. Minutes and Public Access Policy</b>
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The district did not document how some issues discussed and votes taken in closed meetings were allowable under the Sunshine Law, and there was no evidence a roll call vote was taken during open meetings to close any of the meetings. Meeting minutes did not always include sufficient detail of matters discussed, and district business was sometimes conducted outside of regular open meetings. Board minutes were not signed by the assistant secretary as preparer, and the district does not have a formal policy regarding public access to district records.

- A. The district did not document how some issues discussed and votes taken in closed meetings were allowable under the Sunshine Law. For example, during the October 8, 2007, closed session meeting, the board discussed employee compensation. In addition, there was no evidence a roll call vote was taken during open meetings to close any of the meetings.

The Sunshine Law, Chapter 610, RSMo, states the specific reasons governmental bodies are allowed to close a public meeting. Issues not specifically allowed by the Sunshine Law should not be discussed in closed session. In addition, Section 610.022, RSMo, requires the board to vote in open session to close a meeting and to announce publicly the reasons for going into closed session.

- B. Meeting minutes did not always include sufficient detail of matters discussed. There were several instances where the minutes indicated a motion had passed, but did not indicate the number of votes for and against. In addition, the minutes sometimes indicated citizens addressed concerns regarding district roads; however, no specifics such as the name of the road were included. Also, district minutes indicated bids were received for various purchases of equipment and supplies; however, the minutes did not document the final decision and reasons to award the bids. Further, emergency meetings were held on June 30, 2008, and

September 25, 2007, and meeting minutes did not document justification for the emergency or any discussion or decisions made.

Complete and accurate minutes provide an official record of the board's actions and decisions. Care should be taken to ensure the minutes are complete and document discussions or reasons for board decisions. Inadequate or unclear minutes can lead to subsequent confusion as to the board's intentions, possible incorrect interpretation of the board's actions by the general public or other outside entities, and the inability to demonstrate compliance with legal provisions. In addition, Chapter 610.020.7, RSMo, requires minutes to at least include the date, time, place, members present, members absent, and a record of any votes taken.

- C. District business was sometimes conducted outside of regular open meetings. For example, the secretary/treasurer indicated two of the three special road district commissioners met and approved hiring a district employee in October 2007; however, public notice of the meeting was not made, and an agenda and minutes were not prepared to document this decision.

The governing bodies of all political subdivisions are required to conduct business in regular open meetings. Any time a quorum of board members meet in person or by phone and transact public business, they are subject to the Sunshine Law.

- D. Board minutes are prepared by the assistant secretary; however, she does not sign the minutes. Board minutes are signed by members of the board. The board minutes should be signed by the preparer, in addition to the board members, to provide an attestation the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- E. The district does not have a formal policy regarding public access to district records. A formal policy regarding access to district records would establish guidelines for the district to make records available to the public. This policy should establish a person to contact and an address to mail requests for access to records. Section 610.023, RSMo, lists requirements for making district records available to the public.

**WE RECOMMEND** the Board of Commissioners:

- A. Ensure only allowable topics are discussed in closed meetings and a roll call vote is taken during open meetings to close any meetings.
- B. Ensure meeting minutes include the information necessary to provide a complete record of all significant matters discussed and actions taken.
- C. Ensure compliance with the Sunshine Law.

- D. Ensure minutes are signed by the preparer.
- E. Establish a records policy to ensure compliance with the Sunshine Law. This policy should include the records custodian, a central record of documentation requests, procedures for handling requests, and a fee schedule for documentation retrieval, including research costs.

**AUDITEE'S RESPONSE**

*The Board of Commissioners provided the following responses:*

- A. *We will try to do better in the future.*
- B,D  
&E. *We have implemented these recommendations.*
- C. *We will implement this in the future.*

<b>7. Oaths of Office and Candidate Filing for Elections</b>
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The district secretary/treasurer indicated she has always administered the oaths of office for elected special road district commissioners. Section 233.330.2, RSMo, states all special road district commissioners shall qualify for office by taking, subscribing, and filing with the Wright County Clerk the oath prescribed by the constitution of this state.

In addition, candidates were allowed to file for the April 2008 election at two different locations (the district secretary/treasurer's home and a commissioner's home), while the public notice issued by the district indicated filings for office were to be accepted by a commissioner (at his home address) only. Section 115.124.2, RSMo, states the political subdivision shall clearly designate where candidates shall form a line to effectuate such filings for office and determine the order of such filings.

**WE RECOMMEND** the Board of Commissioners ensure oaths of office are administered to the special road district commissioners by the Wright County Clerk and accept candidacy filings at only one location in accordance with the district's public notice.

**AUDITEE'S RESPONSE**

*The Board of Commissioners provided the following response:*

*We will have the Wright County Clerk administer the oaths of office for future elected Commissioners, and all fillings for candidacy will be completed at the Wright County Clerk's office in the future.*

The district does not maintain complete and current records for its capital assets including land, buildings, equipment, and other property. The district sold several vehicles and pieces of equipment, but did not always retain documentation of advertisements published and bids received.

- A. The district does not maintain complete and current records for its capital assets including land, buildings, equipment, and other property. The district's only listing of capital assets was the listing prepared by the Mountain Grove Township Board showing all assets transferred to the district upon its creation in December 1993. Also, property is not tagged for specific identification, and an annual physical inventory is not performed.

Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a detailed description of the assets including name, make, and model numbers; asset identification numbers; physical location of the assets; and date and method of disposition of the assets. These property records should then be compared to the district's insurance coverage and titles. In addition, all property items should be inventoried with a tag or other similar device, and the district should conduct annual inventories.

Adequate general capital asset records are necessary to secure better internal controls and safeguard district assets which are susceptible to loss, theft, or misuse, and to provide a basis for determining proper insurance coverage.

- B. District officials indicated several vehicles and pieces of equipment sold by the district were advertised and bids were received, but the district did not retain documentation of the advertisements published and bids received. In addition, a formal written policy has not been established for the sale of district property. To ensure the best price is obtained for property sold, a formal written policy should be established. The policy should address the authorization required for sale, establishment of a reserve price, advertisement for bids, the bid review and selection process, and notification requirements for bidders (acceptance or rejection).

**WE RECOMMEND** the Board of Commissioners:

- A. Ensure property records are maintained which include all pertinent information for each asset such as a tag number, description, cost, acquisition date, location, and subsequent disposition. These property records should be compared to the district's insurance coverage. The district should also properly tag, number, or otherwise identify all applicable district property and conduct an annual inventory.

- B. Retain documentation of advertisements published and bids received for property sold and establish a formal policy for the sale of district property.

**AUDITEE'S RESPONSE**

*The Board of Commissioners provided the following responses:*

- A. *We have started an inventory listing for items of value. We will complete an annual inventory in the future.*
- B. *We will implement this recommendation.*

<b>9. Culvert Sales and Inventory Procedures and Records</b>
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The district does not have formal written policies regarding the sale and installation of culverts, and it has not evaluated whether the price charged to district residents is sufficient to cover the cost of installation. Records are not maintained to document culverts sold to ensure all amounts are billed to applicable residents, and inventory records are not maintained to account for supplies and materials purchased or stored for the daily operations of the district. In addition, access to the district maintenance grounds is not adequately controlled.

- A. The district sells and installs culverts to district residents at the district's cost of the culvert plus 10 percent. The district secretary/treasurer prepares the billings and receives payments from the residents. Our review of this area noted the following concerns:

- 1) The district does not have formal written policies regarding the sale and installation of culverts. In addition, the district has not evaluated whether the price charged to district residents is sufficient to cover the cost of installation.

The board should evaluate its current policies and procedures regarding performing these services. In addition, installing private culverts may compete with private businesses which perform this service. Formal written policies should be developed to document the district-related purpose, ensure all district residents are treated equally, and prevent misunderstandings.

- 2) Records are not maintained to document culverts sold to ensure all amounts are billed to applicable residents. For example, in May 2008, district minutes indicated the road district foreman had informed the board a culvert extension had been installed for a citizen and needed to be billed. The secretary/treasurer indicated she was unaware of the culvert

installation and had not billed the citizen. As a result, the citizen did not pay for the culvert extension until after our inquiry in December 2008.

To ensure all culverts sold are properly charged, billed, and collected, a log should be maintained by the district of culverts sold. The secretary/treasurer should prepare billings based upon the information on the log and should reconcile payments received to the billings issued.

- B. Inventory records are not maintained to account for supplies and materials purchased or stored for the daily operations of the district. The district typically stockpiles asphalt mix, gravel, culverts, and other supplies at the district maintenance facility. In addition, access to the district maintenance grounds is not adequately controlled. While the maintenance buildings and fuel tanks are locked, the grounds are not secured by a perimeter fence and locking gate. In July 2008, approximately 50 gallons of unleaded fuel and 300 gallons of diesel fuel were stolen from the district.

Without inventory records, the commission cannot effectively evaluate the reasonableness of purchases and usage of supplies and materials, and theft and improper usage may go undetected. In addition, to reduce the risk of loss, theft, or misuse of road district assets, the board should ensure the grounds of the maintenance facility are secured.

**WE RECOMMEND** the Board of Commissioners:

- A. Evaluate the practice of selling culverts to district residents. If the district continues to provide this service, establish a formal written policy and ensure the price established covers all costs incurred. In addition, the Board of Commissioners should maintain a log of culverts installed and reconcile all billings to receipts on a periodic basis to ensure outstanding receivables are collected.
- B. Maintain adequate inventory controls and records to account for district supplies and materials.

**AUDITEE'S RESPONSE**

*The Board of Commissioners provided the following responses:*

- A. *We will review this recommendation further to establish a written policy and ensure documentation and records are adequately maintained.*
- B. *We have established inventory records to account for district supplies. The city of Mountain Grove owns the land and buildings, and the city will not allow us to lock these premises.*

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

MOUNTAIN GROVE SPECIAL ROAD DISTRICT  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

Mountain Grove Special Road District covers 60 miles in southern Wright County, Missouri. The Board of Commissioners consists of 3 commissioners who serve three-year terms. The commissioners receive no compensation and elect a President and Vice President of the board.

<u>Board of Commissioners</u>	<u>Dates of Service During the Year Ended December 31, 2007</u>	
David Splain (1)	January–December	
Delmar Hicks (2)	January-December	
Charles Dean (3)	January-September	
Bruce Kaylor (4)	October-December	
		Compensation Paid for the Year Ended December 31, 2007
<u>Other Officials</u>	<u>Dates of Service During the Year Ended December 31, 2007</u>	
Fay Housely, Secretary/Treasurer	January through December	\$ 5,525
Tonya Lancaster, Assistant Secretary	January through December	558

- (1) David Splain served as Vice President from January through September and President from October through December.
- (2) Delmar Hicks served as Vice President from October through December.
- (3) Charles Dean served as President from January through October, and resigned from the board in October 2007.
- (4) Bruce Kaylor was appointed in October 2007 to fill the remainder of Charles Dean's term.

In addition to the officials identified above, the district employed 2 full-time employees on December 31, 2007.

Assessed valuations for 2007 were as follows:

ASSESSED VALUATIONS

Real estate	\$ 38,496,649
Personal property	<u>13,641,604</u>
Total	<u>\$ 52,138,253</u>

In November 2001, Wright County voters approved a ½ cent road and bridge sales tax that allocated 30 percent of the sales tax collections to the Mountain Grove Special Road District. The sales tax became effective in April 2002.

A summary of the district's financial activity for the year ended December 31, 2007, is presented below:

<b>RECEIPTS</b>	
Wright County road and bridge sales tax	\$ 240,687
Wright County CART distribution	27,500
Charges for services	698
Interest	12,108
Other	7,154
Total Receipts	<u>288,147</u>
<b>DISBURSEMENTS</b>	
Salaries	75,331
Office supplies	7,360
Insurance	12,130
Operating expense	19,219
Equipment purchases	70,862
Equipment repair	25,108
Road maintenance	95,284
Other	4,048
Total Disbursements	<u>309,342</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(21,195)</u>
CASH, JANUARY 1	<u>210,992</u>
CASH, DECEMBER 31	\$ <u><u>189,797</u></u>