



Susan Montee, JD, CPA
Missouri State Auditor

Sugar Creek Special Road District



July 2009

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Office of the
Missouri State Auditor
Susan Montee, JD, CPA

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The following findings were included in our audit report on the Sugar Creek Special Road District.

The Sugar Creek Special Road District made some disbursements that may have been a conflict of interest. The district purchased an 8,000 gallon steel tank from a commissioner in February 2003 for \$1,000 and did not obtain bid documentation. The district has never taken possession of this tank nor does it have the capability to move the tank to district property. The district made four payments totaling \$609 to a local repair shop during the year ended December 31, 2007, without soliciting bids. Commissioner Lloyd indicated the repair shop was owned by his son and the vendor invoices were prepared by Commissioner Lloyd. The checks issued by the district were also signed, endorsed, and subsequently cashed by the Commissioner. In addition, adequate supporting documentation was not available for reimbursements of \$245 made to Commissioner Lloyd.

The district does not have formal bidding policies, and bids were not solicited for various purchases. Additional controls and procedures over district disbursements need improvement.

Flooding caused significant damage to district roads in 2008, and as a result, the district was awarded \$35,795 in Federal Emergency Management Assistance (FEMA) grants to repair and rebuild its roads. The district did not solicit bids for excavation and backhoe work performed to remove debris and reconstruct the roadway costing \$7,165 and did not enter into a written agreement with the vendor. The district has not established a separate record keeping system to track disbursements related to each FEMA project as required. As a result, we were unable to determine all costs incurred related to each FEMA project.

The district exchanged services for work performed by the Secretary/Treasurer and does not have plans to include the value of the exchange on the Secretary/Treasurer's W-2 Form. In addition, documentation of time spent was not tracked to support the value of the work performed by the Secretary/Treasurer. Personnel files and employee withholding forms (W-4s) are not maintained for all district employees. The district does not withhold Missouri income tax from employee paychecks. The district Secretary/Treasurer is paid \$175 a month; however, the district does not require her to prepare a timesheet, and timesheets of other employees are not signed by the employees. In July 2008, the board hired a temporary employee; however, instead of following the district's normal payroll procedures, this employee was paid \$319 cash by another employee and the district reimbursed the employee for his expense; therefore, payroll taxes were not withheld or reported to the Internal Revenue Service.

YELLOW SHEET

Accounting duties are not adequately segregated, and receipt slips are not issued for monies received. Also, the Secretary/Treasurer does not prepare and document bank reconciliations for district bank accounts.

The district's 2008 and 2007 budgets were not accurate and complete, and actual disbursements of the road district exceeded budgeted amounts. The road district does not furnish disbursement information to Barry County for publication of the road district's financial statement. The district has accumulated a significant cash balance without any specific documented plans for its use in an annual maintenance plan. In addition, it is unclear why the district obtained a \$47,606 loan for equipment when it had approximately \$200,000 in available funds.

Meeting minutes did not always include sufficient detail of matters discussed. District business appears to be frequently conducted outside of regular open meetings. District officials indicated notices of meetings did not include tentative meeting agendas, and the district did not retain copies of some meeting notices. The district does not have a formal policy regarding public access to district records.

The district does not have formal written policies regarding the sale and installation of culverts and does not charge district residents for the cost of installation. Records are not maintained to document culverts sold to ensure all amounts are billed to applicable residents. The district does not collect retail sales tax on culverts sold to individuals and businesses. Inventory records are not maintained to account for supplies and materials purchased or stored for the daily operations of the district.

The district does not maintain complete and current records for its capital assets including land, buildings, equipment, and other property. The district has not obtained property insurance coverage to safeguard the building and land the district owns.

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SUGAR CREEK SPECIAL ROAD DISTRICT

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STATE AUDITOR'S REPORT



SUSAN MONTEE, JD, CPA
Missouri State Auditor

To the Board of Commissioners
Sugar Creek Special Road District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Sugar Creek Special Road District. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2008. 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, grant agreement, 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 Sugar Creek Special Road District.



Susan Montee, JD, 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

SUGAR CREEK SPECIAL ROAD DISTRICT
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Disbursements
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The district purchased a steel tank from Commissioner Lloyd in February 2003, and has never taken possession nor does the district have the capability to move the tank to district property. Some district transactions involving Commissioner Lloyd appear questionable and did not include adequate supporting documentation. The district does not have formal bidding policies, and bids were not solicited for various purchases. Additional controls and procedures regarding district disbursements need improvement.

- A. The district purchased an 8,000 gallon steel tank from Commissioner Lloyd in February 2003 for \$1,000. The district has never taken possession of this tank nor does it have the capability to move the tank to district property. While board minutes indicate Commissioner Lloyd abstained from voting on this purchase, the transaction was not bid.

Officers of a special road district serve in a fiduciary capacity. Personal interest in business matters of the district could create the appearance of conflicts of interest. In addition, Sections 105.454 and 105.458, RSMo, prohibit financial transactions between the district and elected officials which involve more than \$500 unless there has been public notice to solicit proposals and competitive bidding.

To avoid the appearance of conflicts 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 officials. The board should also consider establishing a policy that addresses these types of situations and provides a code of conduct for district officials.

- B. Some district transactions involving Commissioner Lloyd appear questionable and did not include adequate supporting documentation.

- 1) The district made four payments totaling \$609 to a local repair shop during the year ended December 31, 2007, without soliciting bids. Commissioner Lloyd indicated his son owned the repair shop.

The vendor invoices were prepared by Commissioner Lloyd. Some invoices indicated work performed included cutting fallen trees and clearing roads of debris. The checks issued by the district were also signed, endorsed, and subsequently cashed by the Commissioner. In addition, one of the four checks was only signed by the Commissioner. Neither the repair shop nor the son has a listed phone number, and we

were unable to contact the son to verify these payments were received by his business. As a result, these transactions appear questionable.

- 2) Commissioner Lloyd was reimbursed for purchases of supplies totaling \$245 without submitting paid receipts verifying the amounts.

All disbursements should be supported by a vendor invoice or other related documentation to ensure the purchases are valid and necessary.

- C. 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
Backhoe	\$ 60,150
Tractor	38,244
Boom mower	27,330
Asphalt	11,897
Diesel fuel (2008)	9,987
Culverts	5,214
Contract labor	4,500
Workman's compensation insurance	4,130
Property insurance	3,110
Unleaded fuel (2008)	3,326
Welding	2,069

In addition, the district did not always ensure it paid the bid price for gravel. For example, the district paid \$6.15 and \$6.40 per ton for dirty base rock during the period October 10, 2008 through November 7, 2008 even though the bid price was only \$6 per ton.

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 the 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 agreed upon bid price.

- D. Some invoices were not marked paid or otherwise cancelled. As a result of not marking invoices paid, the district paid a \$154 invoice twice on both December 4, 2008 and December 12, 2008. In addition, the acknowledgment of receipt of

goods or services is rarely indicated on invoices prior to the disbursement being approved for payment.

Canceling invoices and all other supporting documentation reduces the possibility of duplicate payments, and documentation of the receipt of goods or services is necessary to ensure the district actually received the items or services.

E. Controls over district checks need improvement:

- 1) Most checks were not signed by the President or Vice President and the Secretary/Treasurer. A special road district commissioner, who was not the President or Vice President, signed several checks in the place of the Secretary/Treasurer.
- 2) The district sometimes issued (and the district's bank processed) checks with only one signature although dual signatures are required. The district issued two checks totaling \$282 in July 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.

Section 233.335.5, RSMo, requires all checks to be signed by the President or the Vice President and the Secretary (two signatures required).

- 3) A \$4,500 check was signed in advance to pay for contract labor on December 12, 2008. 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 use is not reconciled to fuel purchases. The district has three diesel tanks at the maintenance facility. Unleaded fuel is purchased at two local gas stations. During the year ended December 31, 2008, the district spent \$9,987 and \$3,326 for diesel and unleaded fuel, respectively.

Fuel and usage logs are necessary to document the appropriate use of equipment and vehicles and to 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; 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, or 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. Two special road district commissioners only documented the number of miles traveled while another submitted a log showing the date, destination, and total number of miles driven. The district paid \$547 to the three special road district commissioners during the 2 years ended December 31, 2008.

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, reimbursements to two of the special road district commissioners should be considered gross income.

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 50 cents per mile while another commissioner was reimbursed at 34 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 has no procedures in place to ensure Forms 1099 are filed with the IRS when required. As a result, the district did not file Forms 1099 for excavation and backhoe services and roller repair services totaling \$4,500 and \$908, respectively, during the year ended December 31, 2008.

Section 6041 through 6051 of the Internal Revenue Code require payments of at least \$600 or more in one year to an individual for professional services or for services performed as a trade or business by non-employees (other than corporations) be reported to the federal government on Forms 1099.

- I. The district did not enter into written contracts defining services to be provided and benefits to be received. For example:
- The City of Seligman provides mowing services for district property. The district paid the city \$250 during the year ended December 31, 2008, and plans to pay \$600 during the year ended December 31, 2009.
 - The City of Seligman shares the cost of paving roads, which border the city and district boundaries, with the district (the roads have historically been maintained 1/2 by the district and 1/2 by the city). The district paid \$3,365 to pave its portion of the roads.

- Barry County paved approximately 5 miles of roads within the district. The district paid the county \$56,550 during the year ended December 31, 2008.
- The district sent a bill totaling \$800 to the Washburn Special Road District in June 2008 for work performed because it believed the costs of road work performed on roads bordering both districts should be shared. No payment was ever received by the district, and the Secretary/Treasurer indicated she did not contact the Washburn Special Road District about the lack of payment. We contacted the Secretary/Treasurer of the Washburn Special Road District, and she indicated the Washburn Special Road District had a verbal agreement with the Sugar Creek Special Road District for both districts to maintain this road and not bill each other for the work completed.

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.

- 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. More closely examine district transactions to identify and avoid apparent and actual conflicts of interest. District officials who have a conflict that is unavoidable should fully disclose their interests. Such matters and transactions should be completely documented so the public has assurance no commissioner has profited improperly. The board should ensure strict compliance with the law when conducting district business and establish a policy addressing these issues.
- B. Avoid questionable transactions and require adequate supporting documentation for all disbursements.
- C. 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.
- D. Ensure all invoices are properly cancelled to reduce the possibility of duplicate payments. Also, the board should require all invoices be initialed or signed by a district employee to indicate acceptance of the goods or services.

- E. Ensure the Board President or Vice President and Secretary/Treasurer 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 make reimbursements in accordance with a mileage reimbursement policy.
- H. Ensure Forms 1099 are prepared and submitted to the IRS as required.
- I. Enter into written agreements with all parties that clearly detail the services to be performed and the compensation to be paid or benefits received.
- J. Solicit proposals from various banking institutions on a periodic basis.

AUDITEE'S RESPONSE

The Board of Commissioners provided the following responses:

- A. *We are planning to move the tank and construct the needed pier, which will hold the tank, on district property in the near future. We will also establish a conflict of interest policy.*
- B. *We will avoid questionable transactions in the future and will require adequate supporting documentation for future disbursements.*
- C. *We will try to document bids received more thoroughly in the minutes and will request bids for more items.*
- D. *We will investigate the double payment and ensure all invoices are marked paid. We will also implement procedures to document receipt of goods.*
- E. *We will ensure all checks are properly signed.*
- F. *We will take this recommendation under advisement and work to implement procedures to monitor fuel.*
- G. *We will set a mileage reimbursement rate and require descriptive logs for mileage.*
- H. *We will take steps to send Forms 1099 at the end of the year.*
- I. *We will try to obtain written agreements, when necessary.*
- J. *We will solicit proposals for banking services.*

Flooding caused significant damage to district roads in 2008, and as a result, the district was awarded \$32,795 in Federal Emergency Management Assistance (FEMA) grants to repair and rebuild its roads. Our review of the district's records identified the following problems:

- The district did not solicit bids for excavation and backhoe work performed to remove debris and reconstruct the roadway. The district paid a vendor \$7,165 between December 30, 2008 and February 13, 2009, for this work. In addition, the work had not been completed as of April 10, 2009, and the district did not enter into a written agreement with the vendor.
- The district purchased a culvert costing \$750 from this same vendor on February 13, 2009, without soliciting bids.
- The district has not established a separate record keeping system to track disbursements related to each FEMA project as required. As a result, we were unable to determine all costs incurred related to each FEMA project.

The FEMA documentation guide requires advertisement and solicitation of bids for construction or debris services. The guide also requires the district to obtain a price or rate quotation from an adequate number of qualified sources for supplies purchased.

In addition, the guide requires a separate record keeping system be established by the district to accurately record all activities and disbursements related to disaster recovery work. The guide indicates the district should track labor costs by individual, rate of pay, duty assignment and work location. The guide also indicates the district should track equipment and contract costs, which should include a daily record of all equipment used for eligible disaster recovery work, including hours operated, applicable equipment rates charged, location of work and name of operator. The guide requires the district to maintain a list of materials used that were taken from inventories or purchased for eligible work, the cost with supporting invoices and location used; and documentation of contracted services used on eligible work, including location of work, costs, and invoices to support the costs; miscellaneous costs; and other supporting records such as labor policies, photographs of work sites, all required permits, and other documents or costs associated with the project.

Further, the record keeping guidelines state all records and supporting documents pertaining to a project should be filed in a separate project file for each project worksheet and must be maintained by the applicant as a permanent record for 3 years following closure of the applicant's grant. Each project file should include at least a copy of the project worksheet, the documentation checklist, and all supporting documentation necessary to support the claim for project costs incurred by the district. If the district

fails to retain adequate documentation and records, it may be required to repay a portion of the grant monies received.

WE RECOMMEND the Board of Commissioners ensure bids are solicited and a separate record keeping system is established for each project as required by FEMA guidelines.

AUDITEE'S RESPONSE

The Board of Commissioners provided the following response:

We will work to bid FEMA disbursements and track FEMA disbursements properly.

3. Payroll Controls and Procedures

The district exchanged services for work performed by the Secretary/Treasurer, did not plan to include the value of the services on the employee's W-2 Form, and did not obtain documentation supporting the additional work performed by the employee. In addition, district payroll policies and procedures need improvement.

A. The April 11, 2008, board meeting minutes indicated the Secretary/Treasurer asked the board to chip and seal the road to her house in exchange for \$1,000. The March 10, 2009, board meeting minutes indicated the board approved waiving the Secretary/Treasurer's \$1,000 payment in exchange for the extra work she was performing related to the state audit. The district did not have plans to include the value of the services on the Secretary/Treasurer's W-2 Form or subject the value of the services to payroll tax withholdings. In addition, documentation of the extra work hours was not prepared to support the value of services received.

Any additional compensation or the value of services received by an employee of the district should be reported on the employee's W-2 Form, and documentation of time spent should be prepared and reviewed to support additional compensation.

B. The district has not established a personnel policy to address various personnel issues. A written personnel policy for all employees is necessary to ensure equitable treatment among employees and the avoidance of misunderstandings.

C. Personnel files and employee withholding forms (W-4 Forms) are not maintained for some 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 W-4 Form is completed by each employee to support withholdings and taxes.

- D. The district does not withhold Missouri income tax from employee paychecks. According to the Secretary/Treasurer, the district believes it is exempt from this requirement; however, Section 143.191, RSMo, states every employer, including all political subdivisions, maintaining an office or transacting any business within this state and making payment of any taxable wages shall deduct and withhold from such wages for each payroll period the amount required.
- E. The Secretary/Treasurer is paid \$175 a month; however, the district does not require her to prepare a timesheet. In addition, timesheets of other employees are not signed by the employees. To document hours actually worked and substantiate payroll disbursements, timesheets should be prepared and signed by all district employees and approved by the board.
- F. In July 2008, the board hired a temporary employee; however, instead of following the district's normal payroll procedures, this employee was paid \$319 cash by another employee and the district reimbursed the employee for his expense. Payroll taxes were not withheld or reported to the IRS and the employee did not receive a W-2 Form. The board indicated the cash payment occurred without its knowledge.

The district should ensure all compensation paid to employees is reported through the normal payroll process with appropriate taxes withheld and W-2 Forms issued.

WE RECOMMEND to the Board of Commissioners:

- A. Ensure additional compensation or the value of the services received is processed through the payroll system and included on the Secretary/Treasurer's W-2 Form. In addition, the board should ensure documentation of time spent is prepared and reviewed to support the additional compensation.
- B. Establish a written personnel policy to ensure equitable treatment of all employees.
- C. Ensure personnel files are maintained for all district employees and all employees prepare a W-4 Form.
- D. Register with the Missouri Department of Revenue to begin withholding Missouri income tax from employee paychecks.
- E. Ensure timesheets are prepared and signed by all employees.

- F. Process all compensation paid to employees through the payroll system and issue the employee a W-2 Form.

AUDITEE'S RESPONSE

The Board of Commissioners provided the following responses:

- A. *We will consult with the IRS or a CPA regarding the reporting of this benefit.*
- B. *We will establish a personnel policy manual.*
- C&D. *We will implement these recommendations.*
- E. *We have implemented this recommendation.*
- F. *We will cover this issue in our personnel policy manual, ensure all payroll transactions are processed properly, and issue the employee a W-2 Form.*

4. Accounting Controls and Procedures
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Accounting duties are not adequately segregated, and receipt slips are not issued for monies received. Also, the Secretary/Treasurer does not prepare and document bank reconciliations for the district bank accounts.

- A. Accounting duties are not adequately segregated. The 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.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance 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. Receipt slips are not issued for monies received. 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.
- C. The Secretary/Treasurer does not prepare and document bank reconciliations for the district's four bank accounts. At December 31, 2008, the Secretary/Treasurer

prepared bank reconciliations for the four accounts which reconciled to the related accounting records. Monthly bank reconciliations are necessary to ensure bank activity and accounting records are in agreement, to detect and correct errors timely, and to allow old outstanding checks to be resolved more timely.

WE RECOMMEND the Board of Commissioners:

- A. Segregate accounting duties to the extent possible and ensure periodic independent supervisory reviews are performed and documented.
- B. Ensure receipt slips are issued for all monies received, properly account for the numerical sequence of official receipt slips issued, ensure the method of payment is indicated on all receipt slips, and reconcile the composition of receipts to the composition of amounts deposited.
- C. Ensure monthly bank reconciliations are prepared and documented.

AUDITEE'S RESPONSE

The Board of Commissioners provided the following responses:

- A. *We will document our review of the bank reconciliations.*
- B. *We will implement this recommendation.*
- C. *We will ensure bank reconciliations are documented.*

5. Budgets, Published Financial Statements, and Road Maintenance

Controls and procedures over district budgets and financial statements are in need of improvement. In addition, the district has accumulated a significant cash balance without any specific documented plans for its use in an annual maintenance plan, and it is unclear why the district obtained a loan to purchase equipment when it had available funds.

- A. The district's 2008 and 2007 budgets were not accurate and complete. For example:
 - The 2008 and 2007 budgets did not contain a budget message or a budget summary.
 - The budgets did not include estimated receipts from all sources with a comparative statement of actual receipts for the two preceding years.

- The budgets included proposed disbursements for the year; however, they did not include a comparative statement of actual disbursements for the two preceding years.
- The budgets did not include the beginning and ending estimated fund balances.
- Documentation of public hearings 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 financial expectations for each area of road district operations and provides a means to effectively monitor actual costs and receipts. 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. Actual disbursements of the road district exceeded budgeted amounts by \$70,650 during the year ended December 31, 2008. The board does not periodically compare actual disbursements to budgeted amounts. Section 67.040, RSMo, indicates a political subdivision shall not increase the total amount authorized for disbursements unless the governing body adopts a resolution setting forth the reasons making the increase necessary and approves or adopts a resolution to authorize the additional disbursements.
- C. The road district does not furnish disbursement information to Barry County for publication of the road district's financial statement. Barry 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 published. Identifying disbursements by vendor and purpose for inclusion in the published financial statements would provide taxpayers more relevant information.
- D. The district has accumulated a significant cash balance without any specific documented plans for its use in an annual maintenance plan. As of December 31, 2008, the district had a balance of \$126,015 and spends approximately \$90,000 annually to maintain district roads. In addition, it is unclear why the district obtained a \$47,605 loan on September 11, 2008, to purchase a tractor and brush cutter when it had approximately \$200,000 in available funds. Upon our questioning, the board approved paying off this loan on March 10, 2009, and paid \$1,259 in interest. 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 a plan, district minutes, or the budget message and made available to the public.

The district should review the balance of funds, and document a formal maintenance plan that should be prepared in conjunction with the annual fiscal budget and include a description of the roads to be worked on, the type of work to be performed, cost estimates, the dates such work could begin, and other relevant information. The plan should also 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. Further, the board should adequately document its evaluation of district funds available, financing arrangements, and interest costs associated with future loans.

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 residents.
- B. Periodically monitor actual disbursements to budgeted amounts and ensure actual disbursements do not exceed budgeted amounts. If circumstances require disbursements in excess of the amounts budgeted, a formal resolution should be adopted authorizing the additional disbursements and the reason for such.
- C. Furnish Barry County with disbursement totals by vendor and purpose for publication of the annual financial statement.
- D. Review the cash balance, consider the district's future needs, and establish a formal annual maintenance plan for district roads. In addition, the board should adequately document its evaluation of district funds available, financing arrangements, and interest costs associated with future loans.

AUDITEE'S RESPONSE

The Board of Commissioners provided the following responses:

- A. *We will work to complete an accurate budget and ensure budget hearings are held.*
- B. *We will try to ensure budgeted amounts are not exceeded in future years.*
- C. *We will work with Barry County to implement this recommendation.*
- D. *We plan to include this information in our budget message and will document reasoning for financing options selected in the future.*

The district did not always ensure compliance with the Sunshine Law.

- A. Meeting minutes did not always include sufficient detail of matters discussed. There were several instances where the meeting minutes indicated a motion had passed, but did not indicate the number of votes for and against. In addition, meeting minutes sometimes indicated work was performed on a district road; however, meeting minutes did not refer to the official district name/number of the road. Also, district meeting minutes indicated bids were received for some purchases of equipment and supplies; however, the meeting minutes did not document the final decision and reasons to award the bids.

Complete and accurate meeting minutes provide an official record of the board's actions and decisions. Care should be taken to ensure meeting minutes are complete and document discussions or reasons behind board decisions. Inadequate or unclear meeting minutes can lead to subsequent confusion as to board intentions, possible incorrect interpretation of board actions by the general public or other outside entities, and the inability to demonstrate compliance with legal provisions. In addition, Section 610.020.6, RSMo, requires meeting minutes to at least include the date, time, place, members present, members absent, and a record of any votes taken.

- B. District business appears to be conducted outside of regular open meetings. For example, while the March 14, 2008, meeting minutes indicate the board discussed the need for a backhoe, a motion to obtain bids or purchase a backhoe was not made or approved. The Secretary/Treasurer advertised for bids for the purchase of a backhoe on March 26, 2008, and a bid dated March 7, 2008 (received prior to the advertisement of bids) was the only bid retained by the district. A backhoe was purchased prior to the next meeting held on April 11, 2008. Several other instances were noted where equipment and supplies were purchased by the district between district meetings, and board discussion or approval was not documented in the minutes.

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.

- C. District officials indicated notices of meetings did not include tentative meeting agendas, and the district did not retain copies of some meeting notices. Section 610.020.1, RSMo, requires a tentative agenda and a meeting notice be posted prior to all meetings of a public governmental body. The district should ensure copies of each meeting notice and agenda are retained to document compliance with state law.

- D. 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, an address to mail requests for access to records, and a fee schedule for document retrieval and research. Section 610.023, RSMo, lists requirements of making district records available to the public.

WE RECOMMEND the Board of Commissioners:

- A. Ensure meeting minutes include information necessary to provide a complete record of all significant matters discussed and actions taken.
- B. Ensure compliance with the Sunshine Law.
- C. Ensure notices and tentative agendas for each board meeting are posted and retained.
- D. Establish a records policy to ensure compliance with the Sunshine Law. This policy should include a designated contact person, 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 better document board decisions in the future.*
- B. *We will ensure these decisions are documented in the minutes in the future.*
- C. *We will post a tentative agenda.*
- D. *We will establish a public access policy.*

7.

Culvert Sales and Inventory Procedures

The district does not have formal written policies regarding the sale and installation of culverts, and does not charge district residents for the cost of installation. Records are not maintained to document culverts sold, retail sales tax is not collected on culverts sold to individuals and businesses, and inventory records are not maintained to account for supplies and materials purchased or stored for the daily operations of the district.

- A. The district sells and installs culverts to district residents and the Secretary/Treasurer prepares the bills and receives payments from the residents. Our review noted the following concerns:

- 1) The district does not have formal written policies regarding the sale and installation of culverts. In addition, the district does not charge residents for the cost of installation. Further, while the Secretary/Treasurer indicated she bills district residents for the actual cost of the culvert, some residents were charged more. For example, a resident was billed \$13.00 per linear foot for a 24' x 12" culvert, which cost the district only \$11.04 per linear foot, resulting in the resident being billed \$47 more than the actual cost.

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. 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 bills based upon the information on the log and should reconcile payments received to bills issued.
- 3) The district does not collect retail sales tax on culverts sold to individuals and businesses. The district may have circumvented sales tax law by selling culverts to other individuals and businesses and not collecting and remitting retail sales tax.

- 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 gravel, culverts, cold mix, and other supplies at the district maintenance facility.

Without inventory records, the commission cannot effectively evaluate the reasonableness of purchases and use of supplies and materials, and theft or improper use may go undetected.

WE RECOMMEND the Board of Commissioners:

- A. Evaluate the practice of selling culverts to district residents. If the district continues to provide this service, the Board of Commissioners should establish a formal written policy and ensure the price established covers all costs incurred and is charged in an equitable manner. 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. The board should collect and remit retail sales tax as required.

- 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 take this issue under advisement and work to establish a policy regarding culvert sales. We are requiring employees to document culvert installations and will reconcile to amounts billed. We will begin collecting state sales tax.*
- B. *We will implement inventory tracking records.*

8. Capital Asset Records and Procedures
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Improvement is needed in the controls and procedures of district property.

- 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 list of capital assets has not been updated since October 1998. 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.

Without such information, the district can not effectively safeguard its assets. For example, the district did not add a backhoe to its insurance policy until 6 months after it was purchased.

Adequate 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. The district has not obtained property insurance coverage to safeguard the building and land the district owns. To protect the district from loss, insurance coverage for district property should be obtained.

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. 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. Obtain insurance coverage for district buildings.

AUDITEE'S RESPONSE

The Board of Commissioners provided the following responses:

- A. *We have established property records and will complete an inventory on a prescribed basis. We will also identify equipment as property of the district.*
- B. *We will implement this recommendation.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

SUGAR CREEK SPECIAL ROAD DISTRICT
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

Sugar Creek Special Road District covers 42 miles in southern Barry County, Missouri. The Board of Commissioners consists of three commissioners who serve 3-year terms. The commissioners receive no compensation and are required to elect a president and vice president of the board.

Board of Commissioners	Dates of Service During the Year Ended December 31, 2008
Wayne Karrick (1)	January-April 2008
Derrick Friend (2)	May-December 2008
Connie Lloyd (3)	January-December 2008
Leslie Stanley (4)	January-December 2008

Other Officials	Dates of Service During the Year Ended December 31, 2008	Compensation Paid for the Year Ended December 31, 2008
Nadine McCasland, Secretary/Treasurer	January-December 2008	\$ 2,100

- (1) Wayne Karrick served as President from January through April.
- (2) Derrick Friend was elected in April to replace Wayne Karrick.
- (3) Connie Lloyd served as Vice President from January through April and President from May through December.
- (4) Leslie Stanley served as Vice President from May through December.

In addition to the officials identified above, the district employed three full-time employees on December 31, 2008.

Assessed valuations for 2008 were as follows:

ASSESSED VALUATIONS

Real estate	\$ 8,599,587
Personal property	<u>3,165,678</u>
Total	<u>\$ 11,765,265</u>

TAX RATE(S) PER \$100 ASSESSED VALUATION

	Rate
Road and Bridge	\$ 0.1489
Special Road and Bridge *	0.1300

* This tax levy renewal did not pass at the April 7, 2009 election; therefore, the district will not receive funds from this tax for the 2009 tax year.

In April 1986, Barry County voters approved a 1/2 cent Capital Improvement Sales Tax for road and bridge improvements which expires in 2011. The district receives a portion of this tax based upon miles of roads maintained and assessed valuation.

A summary of the district's financial activity for the year ended December 31, 2008, is presented below:

RECEIPTS	
Barry County capital improvement sales tax	\$ 62,836
Barry County CART distribution	37,257
Property tax	28,535
Barry County forest reserve	11,130
Interest	6,024
Charges for services	2,696
Loan proceeds	47,605
Other	2,620
Total Receipts	<u>198,703</u>
DISBURSEMENTS	
Salaries	51,958
Administrative	705
Insurance	7,629
Operating expense	14,290
Equipment purchases	79,724
Equipment repair	11,807
Equipment rental	4,500
Road maintenance	95,481
Other	226
Total Disbursements	<u>266,320</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(67,617)</u>
CASH, JANUARY 1	<u>193,632</u>
CASH, DECEMBER 31	<u>\$ 126,015</u>