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Missouri State Auditor

Public Water Supply District #1 of Caldwell County



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YELLOW SHEET

Findings in the audit of the Public Water Supply District #1 of Caldwell County

Surcharge	<p>The district assessed a \$5 monthly surcharge only to customers in the City of Cowgill, due to the city's non-payment of an invoice the city is disputing. Although the district indicated it did not have a valid written agreement with the city regarding a sewer system installation and work performed by the Water Commissioner, the city was billed for the services provided. The city did not approve payment of the bill and the \$5 surcharge was enacted to recover the cost associated with the oversight work. The \$5 surcharge and the contract are items in dispute. Whether the surcharge is illegal or allowed is not clear in state law.</p>
Controls and Disbursements	<p>The district does not require the Water Commissioner to maintain a vehicle usage log, concerns were noted regarding fuel purchases, and commuting mileage is not reported to the Internal Revenue Service. Receipts are not deposited on a timely basis. There is little segregation of duties or oversight of receipts and disbursements. The district did not advertise or competitively seek proposals or bids for dumping bio-solids. The Water Commissioner is paid \$40 an hour to haul away bio-solids, with payments totaling approximately \$6,200 during the year ended December 31, 2009.</p>
Budget and Audit	<p>While a budget was prepared and adopted, it did not contain all elements required by state law. The district budget did not include a budget message, actual receipts and disbursements for the 2 preceding budget years, or beginning and ending cash balances. Although budgeted and actual disbursements are monitored, a budget amendment was not prepared before actual disbursements exceeded the amount budgeted. The district did not obtain an annual audit as required by state law for the year ended December 31, 2008, and has not had an audit for the past several years.</p>
Policies and Procedures	<p>The district does not post an agenda for Board of Directors meetings. In addition, district bylaws indicate regular meetings can be held without notice. The district does not have current bylaws documenting its fee structure and various policies regarding meter deposits, shut off fees, reconnection fees, replacement meter book fees, late charges, non-sufficient fund charges, and any other fees or charges that may be assessed. The district does not have written rules regarding various personnel matters, such as vacation and sick leave policies, overtime and compensatory time policies, work hours, employee duties and responsibilities, lines of authority, and grievance procedures. District procedures regarding access to records are not in agreement with its bylaws.</p>

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Public Water Supply District #1 of Caldwell County

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SUSAN MONTEE, JD, CPA

Missouri State Auditor

To the Board of Directors
Public Water Supply District #1 of Caldwell County, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Public Water Supply District #1 of Caldwell County. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2009. 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. Evaluate the water district's internal controls over significant management and financial functions.
3. Evaluate the water district's compliance 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 water 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 Organization and Statistical Information is presented for informational purposes. This information was obtained from the water district's management and was not subjected to the procedures applied in our audit of the water district.

The accompanying Management Advisory Report presents our findings arising from our audit of the Public Water Supply District #1 of Caldwell County.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CGFM, CIA
Audit Manager:	Randall Gordon, M.Acct., CPA, CGAP
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Public Water Supply District #1 of Caldwell County

Management Advisory Report

State Auditor's Findings

1. Surcharge

The Public Water Supply District #1 of Caldwell County assessed a \$5 monthly surcharge only to customers in the City of Cowgill, due to the city's non-payment of an invoice the city is disputing. Although the district indicated it did not have a valid written agreement with the city regarding a sewer system installation and work performed by the Water Commissioner, the city was billed for the services provided. The district serves approximately 160 customers with approximately half of those customers residing in the city.

The city obtained a grant to install a sewer system and began work on the installation of sewer lines in August 2005. The district, citing the need to ensure no damage was done to the water lines and thus protecting its customers, determined the Water Commissioner should be on hand during the installation of the sewer lines. According to timesheets, the Water Commissioner worked 871 hours more than his normal working hours, from August 2005 to May 2006, observing the installation of sewer lines in the city and locating shut off valves in the event the lines ruptured. The district billed the city monthly for those services at cost, which totaled \$11,720.

The district indicated it did not have a valid written agreement with the city regarding the sewer system installation and the work performed by the Water Commissioner. The city did not see the need and did not approve payment of the district's monthly billings of the oversight by the Water Commissioner, and no agreement could be reached between the district and the city over the billing. The district continued to bill the city for the oversight by the Water Commissioner without a written contract with the city. In April 2007, the district enacted a \$5 monthly surcharge on residents residing within the city to recover the cost associated with the oversight, and also assessed interest at 8 percent, for a total amount to be recovered of \$14,476. Through March 31, 2010, surcharges of \$14,370 have been collected and the district does not intend to collect any more surcharge amounts.

The \$5 surcharge and the contract are items in dispute. The city has indicated that assessing the surcharge to only individuals within the city is illegal. However, whether the surcharge is illegal or allowed is not clear in state law. In addition, in December 2005 (about midway through the sewer installation), a written agreement was signed by the city's Mayor and the district's Board President that indicated the city shall reimburse the district for reasonable additional labor incurred as a result of the sewer installation and also provided the city could inspect any books, records, or documents kept or maintained by the district in connection with the performance of its services. However, the Board of Directors indicated the written agreement was not approved.



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The district should consult legal counsel regarding these matters to ensure all issues are handled appropriately. In addition, written contracts should be obtained prior to services being provided to ensure both parties are in agreement regarding the services and the compensation for those services.

Recommendations

The Board of Directors consult legal counsel regarding the \$5 surcharge and the contract with the city. In addition, written contracts should be obtained before services are provided.

Auditee's Response

The Board of Directors provided the following response:

We consulted legal counsel in the past regarding the surcharge and understood the surcharge was allowable. We also have discussed the contract issues with legal counsel. In the future, we will do a better job of obtaining a written contract indicating what has been agreed to.

2. Controls and Disbursements

The district does not require the Water Commissioner to maintain a vehicle usage log, and concerns were noted regarding fuel purchases. Receipts are not deposited on a timely basis. There is little segregation of duties or oversight of receipts and disbursements. The district did not advertise or competitively seek proposals or bids for dumping sewer sludge.

2.1 Vehicle Usage Log

The district does not require the Water Commissioner to maintain a vehicle usage log, and concerns were noted regarding fuel purchases. The Water Commissioner uses the district's vehicle to commute to and from work and commuting mileage is not reported to the Internal Revenue Service (IRS). The district's Board President indicated this employee is on-call 24 hours a day for emergency situations and the vehicle was not used for personal use by the Water Commissioner. The district reimbursed the Water Commissioner \$3,099 for fuel during the year ended December 31, 2009.

On October 14, 2009, the Water Commissioner purchased approximately 30 gallons of fuel and worked 8 hours. The Water Commissioner did not work from October 15 to October 22. The Water Commissioner then worked 8 hours on October 23 and 5 hours on October 24, when approximately 21 gallons of fuel was purchased. During January 2009, the Water Commissioner purchased fuel nine times totaling approximately 198 gallons and worked 189 hours. On January 16, the Water Commissioner purchased fuel two times totaling approximately 41 gallons and worked only 4 hours. Since a vehicle usage log is not maintained, the propriety of these fuel purchases could not be determined.

A vehicle usage log is necessary to document appropriate use of the vehicle and support fuel charges, and should include the date, vehicle operator, purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. This log



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should be reviewed by a member of the Board of Directors or an applicable official to ensure all mileage is recorded and the vehicle is properly utilized. Information on the log should be reconciled to fuel purchases and other maintenance charges.

IRS reporting guidelines indicate personal commuting mileage is a reportable fringe benefit. Furthermore, IRS guidelines require the full value of the provided vehicle to be reported if the employer does not require the submission of detailed logs, which distinguish between business and personal usage. Such logs are not maintained for this vehicle and are not required by the district. Procedures have not been established to ensure IRS regulations are followed. As a result, the district may be subject to penalties and/or fines for failure to report all taxable benefits.

2.2 Timely deposits

Receipts are not deposited on a timely basis. In October 2009, deposits were made on October 6 for \$846 and October 21 for \$4,651. In addition, there was a deposit slip completed on October 23 for \$1,313 but the monies were not deposited until November 4. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, receipts should be deposited timely.

2.3 Segregation of duties

There is little segregation of duties or oversight of receipts and disbursements. The Secretary/Treasurer receives and pays invoices, computes payroll, makes transfers from one account to another account, signs checks requiring only one signature, and prepares the bank reconciliations. Paid invoices are announced during the monthly Board meeting; however, checks or invoices are not actually reviewed, although the checks and invoices are available for review, if requested. The Collector receives monies, ensures the accuracy of amount received based on water usage indicated, and makes deposits. There is no oversight or documented reviews of the receipts and disbursements.

To safeguard against possible loss, theft, or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. 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.

2.4 Sludge

The district did not advertise or competitively seek proposals or bids for dumping sewer sludge (bio-solids). The Water Commissioner is paid \$40 an hour to haul away bio-solids, with payments totaling approximately \$6,200 during the year ended December 31, 2009. The Water Commissioner uses his own personal equipment to load and haul the sludge to his farm. When bio-solids are dumped on farmland, they act as fertilizer for the land; therefore, it is a benefit to the landowners. If the district advertised for



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dumping bio-solids, it could potentially sell, or at least dump, all bio-solids on private land free-of-charge without paying the Water Commissioner to haul the bio-solids away. In addition, since the Water Commissioner is an employee of the district, the district could have liability issues, should an accident or other event occur while the bio-solids are being hauled by the Water Commissioner.

Recommendations

The Board of Directors:

- 2.1 Require a usage log be maintained for the district's vehicle. Fuel usage should be compared to the number of miles driven to evaluate reasonableness and the fuel efficiency of the district's vehicle, and should be reconciled to fuel purchases. In addition, the Board should ensure the district complies with IRS guidelines for reporting fringe benefits related to the district's vehicle.
- 2.2 Ensure deposits are made timely.
- 2.3 Segregate accounting duties to the extent possible and ensure periodic supervisory reviews are performed and documented.
- 2.4 Advertise or competitively seek proposals or bids for dumping bio-solids to ensure the district uses the most cost-effective disposal means.

Auditee's Response

The Board of Directors provided the following responses:

- 2.1 *We will require a vehicle usage log starting July 1 to meet the IRS guidelines. We will review these records for reasonableness to ensure the vehicle is used properly. For the fuel purchases mentioned, we feel the fuel purchases were proper and realize that a usage log would have supported the proper usage.*
- 2.2 *We will ensure deposits are made timely. Sometimes, we don't make deposits as often as we should due to having to make a special trip to take the deposit to the bank, but we will try to deposit more frequently.*
- 2.3 *Segregation of duties to the extent possible will begin immediately. We will ensure we review the documentation and will document the review performed.*
- 2.4 *Beginning with the next hauling cycle, dumping of bio-solids will be put up for bid. However, bio-solids are considered wastewater and we feel there is no value in it. The only possible savings may be having someone haul it versus the district paying to have it hauled.*



3. Budget and Audit

While a budget was prepared and adopted, it did not contain all elements required, and a budget amendment was not prepared although actual disbursements exceeded the amount budgeted. In addition, the district did not obtain an annual audit.

3.1 Budget

While a budget was prepared and adopted, it did not contain all elements required by state law. The district's budget did not include a budget message, actual receipts and disbursements for the 2 preceding budget years, or beginning and ending cash balances. The budget included only budgeted receipts and disbursements for the current year. In addition, although budgeted and actual disbursements are monitored, a budget amendment was not prepared before actual disbursements exceeded the amount budgeted.

Section 67.010, RSMo, requires the preparation of an annual budget, and Sections 67.010 to 67.080, RSMo, set specific guidelines for the format, approval, and amendment of the annual budget. Section 67.040, RSMo, indicates a political subdivision shall not increase the total amount authorized for disbursement, unless the governing body adopts a resolution documenting the reasons making the increase necessary and approves or adopts a resolution to authorize the disbursements.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific funding expectations for district operations, and as a means to effectively monitor actual costs by periodically comparing budgeted to actual disbursements. It will also assist in setting water rates and informing the public about district operations and current finances. To ensure actual disbursements do not exceed the amount budgeted for disbursements, budget amendments should be prepared when necessary.

3.2 Annual audit

The district did not obtain an annual audit as required by state law for the year ended December 31, 2008, and has not had an audit for the past several years. The district annually contracts with a certified public accountant to perform a compilation of the district's financial statements, but does not receive an auditor's opinion on the fair presentation of those statements. The district is planning on having a compilation performed for the year ended December 31, 2009.

Section 247.080.2, RSMo, requires an annual audit of district receipts and expenditures.

Recommendations

The Board of Directors:

- 3.1 Prepare an annual budget that contains all information required by state law. In addition, the Board should strictly adhere to the



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authorized budget or follow the appropriate procedures to amend the budget if additional disbursements are necessary.

3.2 Obtain an annual audit as required by state law.

Auditee's Response

The Board of Directors provided the following responses:

3.1 *The budget will be modified to include all the applicable information. Amendments will be done when it is realized that budgeted disbursements will be exceeded.*

3.2 *We feel current procedures are adequate.*

4. Policies and Procedures

The district does not post an agenda for its meetings, and district bylaws indicate regular meetings can be held without notice. The district does not have current bylaws documenting its fee structure and various policies, and does not have written rules regarding various personnel matters. In addition, the district did not provide overtime compensation when the Water Commissioner worked more than 40 hours in a week. Also, district procedures regarding access to records is not in agreement with the bylaws. Currently, bylaws adopted in 1965 are used to govern the district.

4.1 Agenda

The district does not post an agenda for Board of Directors meetings. In addition, district bylaws indicate regular meetings can be held without notice. Section 610.020, RSMo, requires the district shall give notice at least 24 hours in advance of the time, date, and place of each meeting, and its tentative agenda, in a manner reasonably calculated to advise the public of the matters to be considered.

4.2 Policies and fees

The district does not have current bylaws documenting its fee structure and various policies regarding meter deposits, shut off fees, reconnection fees, replacement meter book fees, late charges, non-sufficient fund charges, and any other fees or charges that may be assessed. Updated bylaws benefit both district officials and customers by providing a basic understanding regarding rights and responsibilities, and would help ensure all customers are treated equitably.

4.3 Rules

The district does not have written rules regarding various personnel matters, such as vacation and sick leave policies, overtime and compensatory time policies, work hours, employee duties and responsibilities, lines of authority, and grievance procedures. Approximately 59 percent of district expenses are payroll related.

The Water Commissioner worked in excess of 40 hours in a week without receiving overtime compensation 12 times during the year ended December 31, 2009. The district indicated the Water Commissioner is not



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supposed to work more than 40 hours in a week, and thus, does not pay for any hours over 40. However, the district does not have a policy addressing work hours and overtime issues. In addition, the Water Commissioner is paid to haul bio-solids. The amount paid for hauling is more than the amount he would be paid for overtime.

Written rules (ordinances and/or bylaws) that summarize policies can benefit both the district officials and employees by providing a basic understanding between the Board and employees regarding rights and responsibilities. Written rules can also help ensure district policies are fairly and consistently applied to all district employees, and compliance with the Fair Labor Standard Act of 1938 (FLSA), which requires the district to pay overtime for nonexempt employees who work more than 40 hours during a normal work week.

4.4 Access to records

District procedures regarding access to records are not in agreement with the bylaws. The district bylaws indicate, "The books and records of the district, and such papers as may be placed on file by the officers and directors, shall, during all reasonable business hours, be subject to inspection by any person owning land or residing within the district, or any holder or insurer of special obligation bonds of the district." However, this is not the current policy as access to records may be restricted if a customer has requested confidentiality pertaining to the customer's records. The district solicited a customer request of confidentiality form from its customers, and some customers have signed this confidentiality form. In addition, the current user agreement between the district and new customers has a confidentiality clause that limits access to the records.

District bylaws should be revised to include language of the confidentiality agreements. In addition, the district should establish guidelines for the district to make records available to the public. Section 610.023, RSMo, (part of the Sunshine Law) provides requirements for making district records available to the public.

Recommendations

The Board of Directors:

- 4.1 Provide proper notice of meetings and ensure an appropriate agenda is posted.
- 4.2 Update bylaws to reflect current fees and regulations.
- 4.3 Develop written rules regarding personnel matters in compliance with the FLSA.
- 4.4 Update the access to records bylaw to reflect current policies and to comply with the Sunshine Law.



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Auditee's Response

The Board of Directors provided the following responses:

4.1 *This recommendation has been implemented.*

4.2-4.4 *We are in the process of updating our bylaws, policies and procedures, and personnel matters, including compensation and overtime. We will have this material reviewed by an attorney and hope to have all of this done in 3 months.*

Public Water Supply District #1 of Caldwell County

Organization and Statistical Information

The Public Water Supply District #1 of Caldwell County serves approximately 160 customers.

Board of Directors

The Board of Directors consists of five members who serve 3-year terms. The Board elects a President and Vice-President from the Board membership and appoints a Water Commissioner, Deputy Water Commissioner, Collector, and Secretary/Treasurer. The board members serve without compensation.

Name and Title	Dates of Service During the Year Ended December 31, 2009
David Truskett, President	January 2009-December 2009
Freida Wiley, Vice President	January 2009-December 2009
Larry Wiley, Board Member	January 2009-December 2009
Daniel Ryan, Board Member	January 2009-December 2009
Connie Bowers, Board Member (1)	January 2009-July 2009
Joe Dorton, Board Member	August 2009-December 2009

(1) Connie Bowers resigned July 2009 and was replaced by Joe Dorton.

Other Officials

Name and Title	Dates of Service During the Year Ended December 31, 2009	Compensation Paid for the Year Ended December 31, 2009
Curtis Bowers, Water Commissioner	January 2009-December 2009	\$30,155
Gerri Truskett, Collector	January 2009-December 2009	7,200
William Zwycart, Secretary/Treasurer	January 2009-December 2009	1,200
Randall Straker, Deputy Water Commissioner	January 2009-December 2009	430

A summary of the district's financial activity for the year ended December 31, 2009 follows.



Public Water Supply District #1 of Caldwell County
 Organization and Statistical Information

Schedule of Receipts, Disbursements
 and Cash Balances
 Year Ended December 31, 2009

	Water Fund	Meter Deposit Fund	Total
Receipts:			
Water fees	\$ 75,278	0	75,278
Surcharges	4,810	0	4,810
Late fees	3,071	0	3,071
Connection fees	750	0	750
Meter deposits	0	1,700	1,700
Interest	418	4	422
Other	149	0	149
Total Receipts	<u>84,476</u>	<u>1,704</u>	<u>86,180</u>
Disbursements:			
Wages and payroll taxes	49,110	0	49,110
Chemicals	10,516	0	10,516
Utilities	5,485	0	5,485
Contractor services	4,954	0	4,954
Truck	4,340	0	4,340
Gasoline	3,099	0	3,099
Office supplies	2,440	0	2,440
Water supplies	1,601	0	1,601
Professional services	1,259	0	1,259
Insurance	526	0	526
Refunds	0	1,050	1,050
Other	326	0	326
Total Disbursements	<u>83,656</u>	<u>1,050</u>	<u>84,706</u>
Total Receipts Over (Under) Disbursements	820	654	1,474
Cash, January 1 2009	<u>29,152</u>	<u>7,537</u>	<u>36,689</u>
Cash, December 31, 2009	<u>\$ 29,972</u>	<u>8,191</u>	<u>38,163</u>