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**South Central Solid Waste
Management District
Region P**

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CITIZENS SUMMARY

Findings in the audit of the South Central Solid Waste Management District, Region P

Background	The state is divided into 20 solid waste management districts which assist the Department of Natural Resources (DNR) in implementing the state's solid waste management plan. The South Central Solid Waste Management District, Region P, was recognized by the DNR on February 2, 1992, and consists of seven counties: Douglas, Howell, Oregon, Ozark, Shannon, Texas, and Wright.
Related Parties and Payroll	The district did not obtain bids or enter into a written agreement for office space and storage rentals totaling \$4,800 annually paid to a business owned by the District Planner and her spouse. These payments along with reimbursements to this business for payments made to other vendors create the appearance of a conflict of interest. The district did not report on W-2 forms or withhold payroll taxes from compensation paid to some part-time workers.
Grant Withholdings	The district does not retain 15 percent of subgrantee funds subject to the completion of the project as directed by state regulation and DNR policy.
Quarterly Financial Reports	The district does not prepare accurate quarterly financial reports and reconcile these reports to the district accounting records and bank balances.

In the areas audited, the overall performance of this entity was **Fair**.*

American Recovery and Reinvestment Act (Federal Stimulus)	The South Central Solid Waste Management District, Region P, did not receive any federal stimulus monies during the audit period.
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*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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South Central Solid Waste Management District

Region P

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Missouri State Auditor

Executive Board of Directors
South Central Solid Waste Management District - Region P
Eunice, Missouri

We have audited certain operations of the South Central Solid Waste Management District - Region P in fulfillment of our duties under Section 29.380, RSMo. The district engaged Schultz, Wood & Rapp, P.C., Certified Public Accountants (CPAs), to audit the district's financial statements for the years ended June 30, 2012 and 2011. The Department of Natural Resources engaged Casey-Beard-Boehmer PC, CPAs, to conduct a performance audit of the district for the period July 1, 2008, through June 30, 2011. To minimize duplication of effort, we reviewed the reports of the CPA firms. The scope of our audit included, but was not necessarily limited to, the 2 years ended June 30, 2012. The objectives of our audit were to:

1. Evaluate the district's internal controls over significant management and financial functions.
2. Evaluate the district's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

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. We also 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.

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 district's management and was not subject to the procedures applied in our audit of the district.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the South Central Solid Waste Management District - Region P.



Thomas A. Schweich
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South Central Solid Waste Management District

Region P

Management Advisory Report - State Auditor's Findings

1. Related Parties and Payroll

A potential conflict of interest situation should be addressed by the district Executive Board. Compensation payments to certain individuals may not be properly reported to the Internal Revenue Service (IRS).

1.1 Related party payments

The district did not obtain bids or enter into a written agreement for office space and storage rentals paid to a business owned by the District Planner and her spouse.

The District Planner is an employee of the district and is paid a salary of \$33,600, benefits of approximately \$20,000, and reimbursable expenses of approximately \$7,500 annually. She is also paid additional compensation for serving as project manager for specific grant projects, and this additional compensation totaled approximately \$13,000 for the 2 years ended June 30, 2012. The District Planner's spouse is a part-time employee of the district and was paid approximately \$39,000 for project management services during the 2 years ended June 30, 2012. The district reported these compensation amounts on W-2 forms and withheld payroll taxes. However, the district office is located in the residence of the District Planner and her spouse, and the district pays \$4,800 annually for office and storage rental. These payments are made to a company owned by the District Planner and her spouse. The district had a written contract with the company for office and storage rental prior to July 1, 2010, but did not renew the written agreement subsequent to that date. In addition, bids have not been solicited for these services either currently or when there was a written contract.

Additional payments of approximately \$67,000 for the 2 years ended June 30, 2012, were made by the district to reimburse the company for expenses paid by the company to vendors or entities for specific grant project expenses approved by the district and the Department of Natural Resources (DNR). The District Planner indicated these payments were made by the company as a courtesy to the various vendors and entities which desired to be paid on a more timely basis prior to the district receiving corresponding grant funds from the DNR. The district planner indicated these advance payments are no longer paid by the company as of February 2013.

The District Planner serves as the primary administrative employee of the district and is also a non-voting member of the district's Executive Board. Section 105.454, RSMo, prohibits employees serving in an executive or administrative capacity to perform any service for, or sell, rent, or lease any property to the governmental entity for which he/she works in excess of \$500 per transaction or \$5,000 per year, unless the transaction is subject to competitive bidding and the offer accepted is the lowest bid received. While the office and storage rental payments totaled less than \$500 per transaction and \$5,000 per year, the payments to the company owned by the District Planner and her husband create the appearance of a conflict of interest. In



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Management Advisory Report - State Auditor's Findings

addition, competitive bidding for these services helps ensure the district receives fair value by contracting with the lowest and best bidders.

1.2 Compensation for part-time workers

The district did not report on W-2 forms or withhold payroll taxes from compensation paid to some part-time workers hired for various district projects.

The district hires part-time workers for various projects, such as collection events of tires, electronics, and household hazardous waste. These workers are paid hourly wages and complete timesheets, and the wages are paid by the company owned by the District Planner and her spouse and reimbursed by the district. Because the district is responsible for hiring and supervising these workers, it appears they should be considered employees and their wages subject to payroll tax withholding and W-2 form reporting. Neither the district nor the company withheld payroll taxes or reported compensation on W-2 forms. The company did report the payments on Forms 1099. Payments to these workers totaled approximately \$27,000 and \$30,000 during the years ended June 30, 2012 and 2011, respectively.

IRS regulations require wages paid to employees be subject to payroll tax withholdings and reported on W-2 forms. As a result, the district may be subject to IRS penalties.

Similar findings in other independent audit

Similar findings were noted in an independent performance audit of the district dated October 4, 2012.

Recommendations

The Executive Board:

- 1.1. Avoid conflicts of interest in the future, solicit bids for office and storage rental, and enter into formal written agreements for these services.
- 1.2. Ensure appropriate payroll taxes are withheld and compensation properly reported for payments made to part-time workers.

Auditee's Response

- 1.1 *Informal bids on office space have been sought. Rent on an available building in this area was quoted by the owner as \$450 per month. This would include the office area only - no equipment would be provided and there is no space for storage of district equipment. The \$200 rent fee has remained the same since 1994. From 1994 to 2005 the office rent was used as an in-kind match for the District's administrative grant. However, in the Department of Natural Resources - Solid Waste Management Program Terms and Conditions that take effect on July 1, 2013, it is required that a district office be in a public building. While the Region P Executive*



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Management Advisory Report - State Auditor's Findings

Board does not concur with this requirement we have agreed to abide by this DNR Rule. The District board is in the process of soliciting bids for administration which will include office space and storage for district equipment, in a "Public" building beginning with FY2014.

- 1.2 *Collection event personnel work for only a short time (from 1 to 12 days) each year. Two workers have worked only 4 hours every year for the last 15 years. The workers were paid more of a stipend rather than an hourly wage. The District considered the workers "Statutory Exempt Employees." Any worker making over \$600 in one year received a 1099 MISC tax form. The tax information was sent to the state and federal government. Starting with the Spring 2013 collections, all workers are treated as employees. Medicare and Social Security taxes are deducted from their pay and matched by the District. All workers will receive a W-2 form for work in 2013.*

2. Grant Withholdings

The district does not retain 15 percent of subgrantee funds subject to completion of the applicable project and approval of final project paperwork, as required by state regulation and DNR policy. While the 15 percent withholding requirement is typically not required for administrative or operational grants, this requirement is applicable to approximately 2 to 3 district projects annually. The district did not withhold 15 percent from any projects approved during fiscal years 2012 and 2011.

10 CSR 80-9.050 (7)(D) indicates the district shall retain 15 percent of the funds from the recipient until the project is complete. Also, the grant General Terms and Conditions, Section 1.C.3.G, requires the district shall retain 15 percent of the funds awarded for a project until the subgrantee's final report has been provided to the district, and the executive board approves the project's final report and final accounting of expenditures.

A similar finding was noted in an independent performance audit of the district dated October 4, 2012.

Recommendation

The Executive Board retain 15 percent of applicable grant project funding until the project is completed and final paperwork is approved.

Auditee's Response

The District has a policy of direct payment to vendors. Title to equipment purchased with grant funds is vested with the district. The District's policies and procedures state this position which the executive board feels fulfills the requirement to hold back the 15% of funding. An annual review of the policy and procedures takes place at the June full council meeting. The District's policy on direct vendor payments and withholding of 15% will be re-evaluated at the June 2013 full council meeting.



3. Quarterly Financial Reports

District quarterly financial reports were not properly reconciled to district accounting records and contained errors and omissions. Quarterly financial reports for the years ended June 30, 2012 and 2011, did not agree to district bank balances or to the audited schedules of district receipts and disbursements. In addition, quarterly reports did not separately identify unobligated district grant funds and interest income.

Quarterly financial reports are prepared by the district to document each grant project awarded to subgrantees, and to summarize total grant awards, total disbursements, and unspent balances for each grant project and other funding sources such as interest income. The District Planner indicated the quarterly reports sometimes reflect grant project expenses incurred but not yet paid (accrual basis); however, the amounts reported on the quarterly report are not adequately reconciled to cash disbursement records or the bank balances. At June 30, 2012 and 2011, the grant balances on the quarterly reports differed from the district's reconciled bank balances by \$286 and \$1,100, respectively.

The DNR requires preparation of accurate quarterly financial reports to document all district funds received from the Solid Waste Management Fund and other sources. Accurate financial reporting is necessary to ensure all district funds are accounted for properly.

A similar finding was noted in an independent performance audit of the district dated October 4, 2012.

Recommendation

The Executive Board ensure the quarterly financial reports are accurately prepared and reconciled to district bank balances and accounting records.

Auditee's Response

The District has already implemented a process to insure that all bank records are reconciled to the same date so that all financial reports are accurate to that date.

South Central Solid Waste Management District

Region P

Organization and Statistical Information

The establishment of solid waste management districts was authorized in 1990 by Senate Bill 530, as part of the state's solid waste management plan. Solid waste management districts are bodies corporate and politic and are governed by Sections 260.300 through 260.345, RSMo. The state is divided into 20 solid waste management districts which assist the Department of Natural Resources (DNR) in implementing the state's plan, with an emphasis on diverting waste from landfills. The South Central Solid Waste Management District - Region P, was recognized on February 2, 1992, by the DNR and consists of seven counties: Douglas, Howell, Oregon, Ozark, Shannon, Texas, and Wright.

The district is governed by a District Council and an Executive Board. The District Council consists of two members from each of the seven counties, one member from each city within a member county with a population over 500, and one member from each smaller city which elects to join the solid waste management district. The District Council consists of 35 members and meets at least twice a year to appoint members to the district's Executive Board and to review and act upon the district's solid waste management plan. The Executive Board consists of ten members; one member from each of the seven counties, two additional voting members, and a non-voting member appointed by the District Council. The Executive Board members' terms shall be 2 years and can be recertified by the District Council at the end of their term. The duties of the Executive Board consist of: preparing a solid waste management plan for the district; identifying illegal dump sites; establishing an education program about responsible solid waste management practices; establishing bylaws, rules, and regulations for governing the district; entering into contracts with persons for services related to solid waste management; and approving expenditures for district operations and grants.

The district's funding comes from the Solid Waste Management Fund through the DNR. Tonnage fees from landfills in the state are deposited into the Solid Waste Management Fund. Funding for the 20 districts of the state are based on a formula set through legislation.

The district employs an individual to serve as district planner to provide administrative services for the district.

American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

The South Central Solid Waste Management District - Region P did not receive any federal stimulus monies during the 2 years ended June 30, 2012.



South Central Solid Waste Management District
 Region P
 Organization and Statistical Information

Financial Activity

A summary of the district's receipts, disbursements, and cash and investment balances for the 2 years ended June 30, 2012, follows:

	Year Ended June 30,	
	2012	2011
RECEIPTS		
Grant income	\$ 236,898	299,125
Miscellaneous	5,109	3,229
Interest income	458	1,196
Total Receipts	242,465	303,550
DISBURSEMENTS		
Grant expenses	169,771	194,988
Payroll and payroll taxes	54,400	49,643
Benefits	20,400	20,503
Office expense	1,409	1,467
Executive board	6,152	5,559
Dues and subscriptions	328	443
Travel	14,808	10,997
Utilities	1,203	1,194
Office space and storage	4,800	4,800
Total Disbursements	273,271	289,594
RECEIPTS OVER (UNDER) DISBURSEMENTS	(30,806)	13,956
CASH AND INVESTMENTS, JULY 1	181,285	167,329
CASH AND INVESTMENTS, JUNE 30	\$ 150,479	181,285

Source: Audited financial statements