



Office of Missouri State Auditor
Nicole Galloway, CPA

Buck Prairie Special Road District



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Buck Prairie Special Road District

<p>Payments to Board Commissioners and Employees, and Personal Purchases</p>	<p>Auditors identified improper payments totaling \$9,730 paid to former commissioners, and some payments involving a former commissioner and the former foreman created actual or apparent conflicts of interest. A former commissioner's wife was paid more than \$5,000 and the former foreman was paid more than \$20,000 for hauling dirt and rock, but the district did not solicit bids. Payroll payments, expense reimbursements, and cell phone allowances totaling \$215,035 were paid through the payroll system without the support of timesheets, supporting documentation, or formal personnel policies. Some amounts paid were questionable and some were not reported on W-2 forms. Auditors found that some hours worked by employees appeared excessive. For example, three employees were paid for 80 hours each of regular work time and over 107 hours each of overtime during a two-week period, meaning each employee would have worked over 13 hours per day. Some final paychecks issued to employees may have violated state law and others appeared questionable. Former employees were allowed to make personal purchases using district charge accounts, and the district was not reimbursed timely for some of those purchases and not reimbursed for others. The costs for 4 tires charged to the district's account by an employee for his personal vehicle and 2 tires charged to the district's account by the former foreman for his personal loader were not reimbursed to the district or paid to the vendor until after they were questioned by the Lawrence County Sheriff's Office. The cost of a rake wheel charged to the district for the foreman's personal equipment has not been reimbursed to the district.</p>
<p>Financial Condition</p>	<p>The district is in poor financial condition as a result of overspending, lax controls over disbursements, and inadequate oversight and monitoring by the Board of Commissioners. For the years reviewed by auditors, the district's cash balance was significantly less than average annual disbursements and financial obligations at year end.</p>
<p>Oversight and Segregation of Duties</p>	<p>Neither the current nor former Board of Commissioners established adequate segregation of duties or supervisory review over the various financial accounting functions performed by the secretary/treasurer or disbursement activities of employees. This lack of adequate controls and proper oversight allowed the various problems cited throughout the report.</p>
<p>Payroll and Related Matters</p>	<p>Records of time worked or leave taken and earned were not prepared by former employees or the former secretary/treasurer. Currently, a timesheet is prepared each pay period that shows time worked for all employees, but the timesheet is not signed by the employees and is not always signed by the foreman. Additionally, the district had not established personnel policies addressing overtime, holidays, vacation and sick leave, employee benefits, allowances, requirements for the preparation of timesheets or leave records, or the employment and supervision of related employees. The district also did not maintain personnel files or timely remit payroll taxes to the Internal Revenue Service. The district sometimes paid employees in advance of work completed, and we noted concerns with payroll checks clearing the bank prior to the date of checks and payroll check dates not matching dates in the accounting system.</p>

Disbursements	The district does not evaluate the reasonableness of vehicle usage and does not reconcile fuel usage to billings. Mileage and fuel logs are not maintained. Fuel purchases significantly decreased between current and former Boards and employees, and some individual fuel purchases were questionable. Invoices for many items purchased listed the former foreman's personal address as the billing and/or shipping address. Because the district allowed employees to make personal purchases and these items could be used by the foreman personally or in his business, we could not determine whether these purchases were for the district. Procedures for reviewing and approving invoices for payment were lacking. Auditors also noted duplicate payments were made by the district, including one payment for more than \$21,000. The district also lacked adequate controls over checks, incurred late fees for untimely bill payments, and failed to obtain bids for significant purchases.
Accounting Controls and Procedures	The district's receipting and depositing procedures are poor. The current secretary/treasurer does not prepare bank reconciliations for the district's 2 bank accounts, and the district does not have accurate accounting records.
Budgetary Procedures and Financial Reporting	The district's budgets do not contain all statutorily required elements, and budget documents did not present accurate actual receipt and disbursements. The Board also did not adequately monitor budget-to-actual receipts and disbursements. Actual disbursements exceeded budgeted amounts by \$58,206 in 2014 and \$181,590 in 2015. Additionally, the district did not file a financial report with the State Auditor's Office as required by law.
Sunshine Law Issues and Record Retention	The Board of Commissioners did not always comply with the Sunshine Law. Meeting minutes were not always maintained, and the reason for closing certain meetings was not documented. Some issues discussed in closed session were not allowable under state law. Additionally, many bank statements, invoices, and other financial records could not be located and were obtained from the bank, the former secretary/treasurer, and vendors.
Road Maintenance	The district has not developed a formal annual maintenance plan for district roads and bridges, and does not maintain a listing of public roads under its legal authority. During 2012, the district paved 2 private roads and did not retain sufficient documentation or seek reimbursement of some of the related paving costs.
Capital Asset and Inventory Records	Nearly \$2,000 worth of assets purchased by the district are missing, and capital asset records and procedures need improvement.

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

*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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Buck Prairie Special Road District

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NICOLE GALLOWAY, CPA

Missouri State Auditor

To the Board of Commissioners
Buck Prairie Special Road District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Buck Prairie Special Road District. We have audited certain operations of the district in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2014. The objectives of our audit were to:

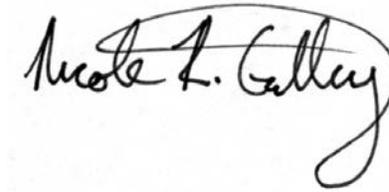
1. Evaluate the district's internal controls over significant management and financial functions.
2. Evaluate the district's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

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; inspection of capital assets; and analysis of comparative data from external and internal sources. 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, 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 subjected 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 Buck Prairie Special Road District.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

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Buck Prairie Special Road District

Management Advisory Report

State Auditor's Findings

1. Payments to Board Commissioners and Employees, and Personal Purchases

The audit identified former board commissioners were improperly paid \$9,730. In addition, some payments involving Board Commissioner Metcalf (\$5,013) and Foreman Morris (\$20,794) created actual, or at the very least, the appearance of conflicts of interest, and other payments made to Foreman Morris were unsupported.

Payroll payments, expense reimbursements, and cell phone allowances totaling \$215,035 were paid through the payroll system to former district employees without the support of timesheets, supporting documentation, or formal personnel policies. Some amounts paid were questionable and some were not properly reported on W-2 forms. Some final paychecks issued to employees may have violated state law and others appeared questionable. Former employees were allowed to make personal purchases using district charge accounts and did not always reimburse the district for these purchases.

The special road district's fiscal year is January 1 through December 31. The scope of our audit included, but was not necessarily limited to the period January 1, 2014, through December 31, 2014. After the identification of significant concerns regarding unsupported payments, conflicts of interest, personal and questionable purchases, and missing assets, we applied limited audit procedures to disbursement transactions for the period January 1, 2009, through December 31, 2013.

As shown in detail in the Organization and Statistical Information section of the report, significant board commissioner and employee changes occurred in late 2014. At the November 26, 2014, district board meeting, 2 board commissioners signed the final checks for the district's 3 employees, subsequently terminated those employees, and then resigned from the Board. The contracted bookkeeper, who served as the appointed district secretary/treasurer, also resigned on this date.

1.1 Payments to board commissioners

Three board commissioners were improperly paid \$9,730 in total for meeting attendance. We identified various concerns with these payments:

- Payments for meeting attendance violate state law. The secretary/treasurer indicated she paid each commissioner \$40 for each monthly meeting. Accounting records also indicated the payments were \$40 per month. Section 233.060, RSMo, indicates the board of commissioners shall serve without compensation, but actual, necessary expenses, actually paid, shall be repaid to them. Former board commissioners initially indicated these payments were for attending meetings, but later indicated the payments may have been for mileage reimbursement. However, no documentation of miles driven was maintained by the commissioners, and district personnel could provide no documentation to show these payments represented expense reimbursements.



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- Board commissioners were paid for at least a year and sometimes for several years at a time.
- Sometimes the check date preceded the end of the period for which the compensation pertained.
- One board commissioner (Godwin) was paid for the period May 2013 through April 2014, while another board commissioner (Metcalf) was not paid for that time period. Another board commissioner (Gamble) who served from April 2012 to June 2014 was not paid.
- Accounting records indicate the board commissioners were paid twice for March and April 2010.
- Meeting minutes were not retained to support some meetings held, attendance at meetings was not always documented in the meeting minutes, and meeting minutes maintained also did not document the discussion and approval of these payments. In addition, documentation of mileage reimbursements or miles driven was not retained.

Details of these payments to board commissioners are as follows:

Board Commissioner	Date of Check	Check Number	Amount of Check	Months Paid per Accounting System
Gene Godwin	12/30/2013	17429	\$ 480.00	May 2013 to April 2014
	4/29/2013	17177	520.00	April 2012 to April 2013
	3/26/2012	16863	520.00	March 2011 to March 2012
	2/28/2011	16511	480.00	March 2010 to February 2011
	2/16/2010	16181	960.00	April 2008 to April 2010
	Total		\$ <u>2,960.00</u>	
Terry Metcalf	4/29/2013	17190	\$ 520.00	April 2012 to April 2013
	3/26/2012	16877	520.00	March 2011 to March 2012
	2/28/2011	16525	480.00	March 2010 to February 2011
	2/16/2010	16191	1,920.00	April 2006 to April 2010
	Total		\$ <u>3,440.00</u>	
Terry Hickman	3/26/2012	16865	\$ 520.00	March 2011 to March 2012
	2/28/2011	16513	480.00	March 2010 to February 2011
	2/16/2010	16183	2,330.00	July 2005 to April 2010
	Total		\$ <u>3,330.00</u>	

The practice of compensating board commissioners a set amount for each month was discontinued in 2014. Current board commissioners are only reimbursed for actual expenses incurred.

1.2 Conflicts of interest and payments to the foreman Some payments involving Board Commissioner Metcalf (\$5,013) and Foreman Morris (\$20,794) created actual, or at the very least, the



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appearance of conflicts of interest. In addition, \$9,191 of these payments were unsupported and others were questionable. Additional payments made to Foreman Morris for reimbursement of repairs, airline tickets, and equipment maintenance totaling \$3,044 were also unsupported. Board Commissioner Metcalf operates a construction and concrete business and owns a dump truck, and Foreman Morris owns and operates a farm and owns a dump truck. Both perform services similar to the district.

- During 2012 and 2013, the district made payments totaling \$5,013 to Board Commissioner Metcalf's wife for hauling dirt and rock, without soliciting bids. Adequate supporting documentation was not retained for a \$3,713 payment in January 2013. The invoice was prepared by the foreman using an invoice book that he used for his personal business, and no load tickets for hauling rock were attached. A \$1,300 payment made in June 2012 was unsupported and February 2012 meeting minutes indicated Board Commissioner Metcalf was going to "donate the shot rock needed and the truck to haul it" to raise the intersection at district road 2160 and Highway 14. Board Commissioner Metcalf signed both checks issued to his wife. District personnel explained the payments were for rental of a dump truck, however, this information was not evident from records or the invoice.
- The district made payments to Foreman Morris and his business (Broken-B-Farms) for hauling dirt and rock, without soliciting bids, and reimbursed him for repairs as follows:

Date of Check	Check Number	Payee	Amount for Hauling	Reimbursement of Repairs	Total Amount
10/26/2009	16073	Broken-B-Farms	\$ 1,654	N/A	1,654
07/09/2010	16317	Broken-B-Farms	4,015	N/A	4,015
07/27/2010	16344	Broken-B-Farms	3,960	N/A	3,960
06/28/2012	16955	Blaine Morris	1,300	N/A	1,300
01/09/2013	17093	Blaine Morris	5,418	N/A	5,418
08/07/2013	17280	Blaine Morris	1,458	1,525	2,983
08/30/2013	17316*	Blaine Morris	358	N/A	358
04/17/2014	17530	Blaine Morris	1,911	200	2,111
05/23/2014	17560	Blaine Morris	720	N/A	720
		Total	\$ 20,794	1,725	22,519

*Payment was made through a payroll check

In addition, the \$3,960 hauling payment in 2010, the \$1,300 hauling payment in 2012, and both hauling payments totaling \$2,631 in 2014 were unsupported. Adequate supporting documentation was also not retained for the \$4,015 hauling payment in 2010 and \$2,806 of the hauling payments in 2013. Invoices did not document the dates of service and load tickets for rock hauled were not attached.



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The district did not document its decision to use Board Commissioner Metcalf's and Foreman Morris' dump trucks to haul dirt and rock for the district. There are no meeting minutes to document the discussion and reasons for using these trucks rather than district-owned dump trucks and prior approval of the arrangement. In addition, there were no written agreements, and invoices retained lacked detail regarding the services included for the compensation paid (use of the truck only or driver and fuel provided).

In addition, no documentation was retained by the district or the foreman for reimbursement of repairs made in 2013 (\$1,525) and 2014 (\$200). Accounting records also indicate the district reimbursed the foreman \$899 for airplane tickets to Florida in 2009 and \$420 for equipment maintenance in 2010. The former foreman indicated the trip to Florida was necessary to check on a semi-truck the district was interested in purchasing, and which the district subsequently purchased. However, no documentation was retained by the district or the foreman to support these payments. These 2 transactions are not included in the previous table.

Board commissioners serve in a fiduciary capacity. Personal interests by board commissioners and employees in business matters of the district could create actual and the appearance of conflicts of interest. Sections 105.454 and 105.458, RSMo, prohibit financial transactions between the district and elected or appointed officials or employees that involve more than \$500 per transaction or \$5,000 per annum, unless there has been public notice to solicit proposals and competitive bidding, provided the bid or offer accepted is the lowest received.

The Board should ensure its members abstain from any decision to contract with a related party and ensure that action is fully documented in the meeting minutes. The Board should also ensure employees disclose any business relationships or possible conflicts of interest situations with the Board. In addition, to help prevent actual or the appearance of conflicts of interest, discussions and decisions concerning situations where potential conflicts of interest exist should be completely documented. Soliciting bids or proposals helps ensure the district receives fair value for the monies spent on services. The lack of detailed supporting documentation makes it difficult for the district to ensure the propriety of payments made.

1.3 Unsupported, questionable, and unreported payroll payments

Payroll payments, expense reimbursements, and cell phone allowances totaling \$215,035 were paid through the payroll system to former district employees without the support of timesheets, supporting documentation, or formal personnel policies. In addition, some of the amounts paid were questionable and some were not properly reported on W-2 forms. According to the payroll system, the following payments, totaling \$207,092, were made to the district's 3 full-time employees during 2014 and 2013:



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Types of Payroll Payment	<u>Foreman Morris</u>		<u>Employee Morris</u>		<u>Employee Killman</u>		<u>Total</u>	
	2014	2013	2014	2013	2014	2013	2014	2013
Regular pay	\$ 28,590	28,416	25,283	25,116	24,139	24,674	78,012	78,206
Overtime pay	1,814	6,720	1,092	4,802	1,092	4,254	3,998	15,776
Paid holidays	1,178	768	901	662	1,016	662	3,095	2,092
Paid vacation leave	2,304	2,176	1,585	938	1,581	1,711	5,470	4,825
Paid sick leave	389	640	512	856	1,144	552	2,045	2,048
Repairs/Equipment maintenance	352	1,419	0	0	0	0	352	1,419
Cell phone allowance	1,200	1,300	0	0	0	0	1,200	1,300
Special	2,662	0	2,296	0	2,296	0	7,254	0
Total	\$ 38,489	41,439	31,669	32,374	31,268	31,853	101,426	105,666

Payments to the district's 2 part-time employees totaled \$7,805 in 2013 and \$138 in 2014.

Payroll checks were prepared by the secretary/treasurer and signed by board commissioners. The payroll system shows these payments related to time worked, holidays, vacation and sick leave, reimbursements, allowances, or "special"; however, there are no timesheets or personnel policies to support the hours, holidays, leave, and allowances paid to full and part-time employees. (see MAR finding number 4). According to the payroll system, regular pay for both years totaling \$156,218 represents pay for a 40 hour work week, but no timesheets or personnel policies were maintained to indicate required work hours or pay rates.

Questionable payroll payments

Some overtime hours, vacation leave, and holidays paid to the district's 3 employees are questionable. In addition, as a result of using nonworking time to calculate overtime, these employees may have been overpaid.

- Some hours worked by employees appeared excessive and unusual. For example, during the 2 week pay period ending December 20, 2013, the 3 employees were paid for 240 hours (80 hours each) of regular work time, and 326.5 hours (over 107 hours each) of overtime. This would average each employee working over 13 hours every day of the 14 days in the pay period. Foreman Morris indicated he could not recall specifically why the overtime hours were paid, but due to the timing of the payments he thought it would have been due to bad weather.

In addition, nonworking time, such as vacation and sick leave and holidays, was included as hours worked when calculating overtime, which is not required by the Fair Labor Standards Act (FLSA). For example, during the 2 week pay period ending December 6, 2013, all 3 employees were paid for 35 hours of compensatory time, when they worked 40 regular hours, were paid for 16 holiday hours, and used 24 hours of vacation. Without timesheets and leave records, it is unclear when the overtime was worked and vacation was taken.



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Our review of payroll system records indicate that former employees may have been overpaid a total of \$2,396 as a result of including nonworking time in the calculation of overtime during the 2 years ended December 31, 2014.

- Former employees were paid for holidays inconsistently between years and the district had no Board approved list of paid holidays. For example, in 2013, the district paid employees holiday pay for the day after Independence Day and Labor Day, but not in 2014. In 2014, the district paid employees holiday pay for Good Friday, but not in 2013. During 2013 and 2014, employees received holiday pay for Memorial Day, Independence Day, Thanksgiving Day, the day after Thanksgiving, Christmas Eve, Christmas Day, New Year's Eve, and New Year's Day.
- Some vacation hours paid to former employees appeared excessive and were not supported by personnel policies or documented board approval. Personnel indicated each employee was to receive 2 weeks of vacation (80 hours) per year and vacation was to be used within the year and not accumulated from year to year. The secretary/treasurer indicated each employee received 2 weeks of vacation and that there was no restrictions on when the vacation time had to be used, but the employees always used it by year end. However, payroll records showed the district paid Foreman Morris over 135 hours of vacation in both 2014 and 2013; employee Morris over 110 hours of vacation in 2014; and employee Killman over 110 hours of vacation in both 2014 and 2013.

Considering the unusual nature and timing of some of the transactions and lack of supporting documentation, a proper review by the Board of Commissioners should have identified concerns. However, monitoring of payroll disbursements for propriety was inadequate and personnel policies had not been established.

Payments for repairs

The district also paid the foreman additional amounts through his payroll checks for repairs or reimbursement of supplies purchased and these items were coded as "repairs" in the accounting system. However, no documentation or inadequate documentation was retained by the district or the foreman to support the following payments:



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Description	Date of Check	Check Number	Amount
Purchase of 4 tires for roller	01/23/2009	15623	\$ 140
Purchase of 14 steel rods	03/19/2009	15661	56
Repairs	06/09/2009	15752	118
Repairs	02/05/2010	16166	310
Repairs	04/02/2010	16227	560
Repairs	04/15/2010	16232	480
Repairs	07/23/2010	16339	6
Repairs	02/18/2011	4	51
Repairs	09/02/2011	16692	140
Repairs	10/14/2011	16717	40
Repairs	12/23/2011	16772	280
Repairs	06/08/2012	16930	467
Repairs	11/23/2012	17047	379
Repairs	05/24/2013	17198	500
Repairs	09/13/2013	17321	194
Repairs	11/08/2013	17376	575
Repairs	12/20/2013	17407	150
Repairs	04/25/2014	17533	120
Repairs	08/15/2014	17644	232
Total			\$ 4,798

The only documentation retained to support the purchases of tires and steel rods was informal notes. Without supporting documentation to account for "repairs" or reimbursement of supplies purchased, there is less assurance expenses are appropriate and necessary. Additionally, Internal Revenue Service (IRS) regulations provide when an employer issues a check to an employee without requiring proof of reimbursement for actual expenses incurred, the amount is taxable income and should be reported on W-2 forms.

The lack of detailed supporting documentation makes it difficult for the district to ensure the propriety of payments made for employee reimbursements. District funds should be expended only on items that clearly benefit the district. A proper review by the Board can prevent improper use of district funds.

Cell phone allowance and district vehicle

Foreman Morris was overpaid \$200 in cell phone allowances, and the cell phone allowance appears excessive. The foreman was paid a \$100 per month allowance for cell phone use; however, the foreman received 13 payments in 2013 and 12 payments in 2014, even though he was terminated in November 2014. In addition, the business justification of the allowance was not documented and the allowance was not supported by documented board approval. To ensure the cell phone allowance is reasonable, the



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district should re-evaluate the allowance amount, and document board approval and business justification. Currently, the district pays no cell phone allowances.

Personal use of vehicle

Foreman Morris and employee Morris were allowed to use district vehicles to commute to and from work. The value of personal (commuting) mileage was not calculated and included on their W-2 forms as a fringe benefit. There were no logs or other accounting of the use of these vehicles. Currently, no employees utilize district vehicles for commuting purposes.

IRS reporting guidelines indicate personal commuting mileage is a reportable fringe benefit. Because procedures have not been established to ensure IRS regulations are followed, the district may be subject to penalties and/or fines for failure to report all taxable benefits.

1.4 Final paychecks

Final paychecks issued to the district's 3 employees may have violated state law and others appear questionable. On November 26, 2014, just prior to Thanksgiving, the Board of Commissioners terminated the 3 full-time employees and issued 2 final payments to each employee. Prior paychecks to these 3 employees were issued on November 21, 2014, for the pay period November 10, 2014, through November 21, 2014.

"Special" payments

Each employee received a paycheck for 160 hours on November 26, 2014, (representing 4 weeks of pay) at each employee's hourly rate. The payments were recorded in the district's accounting system as "special" payments. No supporting documentation was retained and meeting minutes did not explain the purpose of these "special" payments. As a result, it is unclear whether these payments were for services previously rendered or for the 4 weeks following termination. The district paid Foreman Morris \$2,662 and employees Morris and Killman \$2,296 each.

These "special" payments may represent additional compensation for services previously rendered and, as such, would be in violation of Article III, Section 39, Missouri Constitution, and Attorney General's Opinion No. 72- 1955 (June 14, 1955), which states, ". . . a government agency deriving its power and authority from the constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

One of the employees received unemployment benefits for the month of December 2014. The district did not contest the payment of these benefits even though the "special" payments may have included compensation for part of this period.

Questionable final payments

In addition, the final paychecks also issued on November 26, 2014, to the 3 employees appear questionable. These paychecks included compensation for 24 hours of regular pay and 16 hours of holiday pay for the week ending



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November 28, 2016. The 16 hours of holiday pay was paid for November 27 and 28, 2014, the 2 days after the employees were terminated. One of the employees also received payment for 20 hours of sick leave. No documentation was retained nor did meeting minutes explain the purpose of paying these employees for holiday pay after they were terminated or for the sick leave paid to one employee. As a result, Foreman Morris was overpaid \$266, employee Morris was overpaid \$517, and employee Killman was overpaid \$230. As noted in MAR finding number 4, the district had not established any formal personnel policies to provide guidance when employees terminate employment with the district.

1.5 Personal purchases

Employees were allowed to make personal purchases by charging items to the district's vendor accounts and subsequently reimbursing the district for the personal items. However, some personal purchases were not reimbursed timely and some were not reimbursed. Also, no sales tax was paid on the personal purchases.

Foreman Morris indicated the entire time he worked for the district employees were allowed to make personal purchases, charge them to the district, and then reimburse the district. Board Commissioner Godwin also indicated employees were allowed to make personal purchases as long as the employee reimbursed the district. However, the district did not ensure all personal purchases were reimbursed, and it is questionable whether all personal purchases have been identified. We identified the following concerns:

- Employee Morris purchased 4 tires costing \$746 for his personal vehicle on March 27, 2014, and charged the tires to the district. The district subsequently paid this bill on August 4, 2014. On October 24, 2014, the employee indicated to officers of the Lawrence County Sheriff's office that he had paid for the tires personally and could prove that he had paid for them with a check. The district subsequently received a \$750 cash reimbursement for the tires from Morris on October 28, 2014.
- Foreman Morris purchased 2 tires costing \$655 for his personal loader on July 11, 2014, and charged the tires to the district. Foreman Morris provided documentation indicating he made a \$655 cash payment to the tire vendor on November 3, 2014, almost 4 months after the purchase was made and shortly after being questioned by officers of the Lawrence County Sheriff's office on October 24, 2014.
- Foreman Morris purchased a rake wheel costing \$100 for his personal equipment on June 2, 2014, and charged the rake wheel to the district. The district subsequently paid this bill on August 4, 2014. On October 24, 2014, the foreman indicated to officers of the Lawrence County Sheriff's office that he had paid for the rake wheel personally and could prove he had paid for it with a check. He also indicated to officers that a



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garnishment had been taken out of his payroll check in error and that the error was in the same amount as the cost of the rake wheel. However, he provided no documentation that the rake wheel was purchased with personal funds, and district records and the secretary/treasurer indicated no garnishment occurred. This personal purchase has not been reimbursed to the district. In addition, jumper cables costing \$83 were also purchased on this invoice, and we could not determine whether these cables are still on hand with the district.

- Four 75R016 Superhawk trailer tires, costing \$600, were purchased and charged to the district's account on March 13, 2014. The district subsequently paid this bill on April 28, 2014. However, the tires were not listed on the district's capital asset inventory conducted in January 2015, and have not been located on district property. Former district employees and board commissioners own trailers, for which these tires could have been purchased. As a result, these tires may represent another instance of an unreimbursed personal purchase.
- No sales tax was paid on any of these personal purchases.

The Board did not adequately review disbursements as noted in MAR finding number 5.3; therefore, the personal charges were not identified. Allowing employees to charge personal purchases to district accounts increases the risk that the district will pay for items not intended for district purposes or not receive timely reimbursement on personal purchases. The district sales tax exemption status should not be used to benefit individuals. Doing so is a violation of the terms of the sales tax exemption status.

Conclusion

The lack of adequate controls and record-keeping procedures and the absence of proper oversight by the Board of Commissioners, as further discussed throughout this report, allowed unsupported and questionable payments, conflicts of interest, personal purchases, and missing assets to occur and go undetected.

Recommendations

The Board of Commissioners:

- 1.1 Evaluate past improper payments and seek reimbursement as appropriate.
- 1.2 Refrain from entering into business transactions with related parties unless such services or transactions are properly bid in accordance with state law and the selection process is documented.
- 1.3 Establish a formal payroll review and monitoring process, and subject unsupported reimbursements and personal commuting miles to payroll tax withholdings as appropriate, and amend prior W-2



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forms. The Board should also take action to recover questionable and unsupported payments.

- 1.4 Ensure future final paychecks are supported by proper documentation and personnel policies, and seek reimbursement of the additional compensation paid and overpayments.
- 1.5 Prohibit employees from making personal purchases using district accounts, seek reimbursement from former employees for personal purchases, and work with law enforcement authorities regarding any criminal prosecution.

Auditee's Response

- 1.1 *We will seek reimbursement of these payments.*
- 1.2 *We will refrain from entering into business transactions with related parties unless services or transactions are properly bid in accordance with state law. In addition, we will document the selection process.*
- 1.3 *We have established a formal payroll review and monitoring process and have implemented timesheets. We will amend prior W-2 forms for unsupported reimbursements and personal commuting miles. We will seek reimbursement of these questionable and unsupported payments.*
- 1.4 *We will ensure any final paychecks are supported by timesheets, leave records, and personnel policies. We will seek reimbursement of the additional compensation and overpayments.*
- 1.5 *Employees are no longer allowed to make personal purchases on district accounts. We will seek reimbursement from former employees for personal purchases and work with law enforcement authorities regarding criminal prosecution.*

2. Financial Condition

The district is in poor financial condition as a result of overspending, lax controls over disbursements, and inadequate oversight and monitoring by the Board of Commissioners. The following table reflects actual receipts, disbursements, beginning and ending cash balances, and financial obligations (debt) for the 3 years ended December 31, 2014:



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	Year ended December 31,		
	2014	2013	2012
Beginning cash balance	\$ 6,720	12,717	20,440
Receipts	361,266	325,666	343,622
Disbursements	(333,867)	(349,556)	(403,278)
Line of credit advances	53,800	89,050	79,600
Line of credit payments	(76,956)	(71,157)	(27,667)
Ending cash balance	\$ 10,963	6,720	12,717
Financial obligations	\$ 156,148	137,179	123,350

Information was compiled from district records.

At December 31 of each year, the district's cash balance was significantly less than average annual disbursements and financial obligations. The district's financial condition improved during 2015, with a cash balance at December 31, 2015, of \$124,275. However, this improvement was primarily due to one-time incentive payments totaling \$235,000 for a railroad crossing and road closure in September 2015, and may not represent a positive trend in the district's financial condition.

Financial obligations

The financial obligations noted in the previous table include the following loans and outstanding balances.

	Year ended December 31,		
	2014	2013	2012
Line of credit balance	\$ 82,758	99,993	76,676
Accounts payable balance	44,468	20,849	23,107
Equipment loan balance	0	16,337	23,567
Vehicle loan balance	28,922	0	0
Total	\$ 156,148	137,179	123,350

Information was compiled from district records.

In September 2010, the district established a line of credit with a local bank in the amount of \$100,000 with a 6.5 percent interest rate. Periodic advances were taken to help fund the operations of the district. The district paid off the line of credit balance in October 2015.

In addition, district records and vendor invoices indicate the district maintained a significant ongoing accounts payable balance with an asphalt vendor throughout the 3 years ended December 31, 2014. The district fully paid this balance in April 2015.

Financial information

The Board does not receive accurate financial information allowing for more effective monitoring of cash balances and the financial condition of



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district funds. Accounting records and annual budgets are not accurate and bank reconciliations are not prepared (See MAR finding numbers 6 and 7).

It is essential the Board of Commissioners continue to address the district's financial condition both in the immediate- and long-term future. In addition, to effectively monitor the available cash and financial condition, the district needs complete and accurate financial reports.

Recommendation

The Board of Commissioners continue to closely monitor and take the necessary steps to improve the financial condition of the district.

Auditee's Response

We will continue to closely monitor and will take steps to improve the financial condition of the district.

3. Oversight and Segregation of Duties

Neither the current nor former Board of Commissioners established adequate segregation of duties or supervisory review over the various financial accounting functions performed by the secretary/treasurer or disbursement activities of employees. Weaknesses identified throughout this report are significant and demonstrate a lack of segregation and proper oversight by the Board. There is little assurance district monies and assets have been handled and accounted for properly.

The position of secretary/treasurer has been and remains responsible for most record-keeping duties of the district, including receiving, recording, and depositing monies; preparing invoices for payment; maintaining payroll records; preparing and distributing payroll and accounts payable checks; and preparing monthly bank reconciliations. The former foreman was responsible for reporting hours worked, procuring nearly all district purchases, submitting invoices to the former secretary/treasurer for payment, and maintaining and tracking district equipment and supplies.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties is not possible, timely supervisory or independent reviews of work performed and investigation into unusual items and variances is necessary. Good management practices require extensive and detailed oversight by the Board.

The lack of adequate controls and the absence of proper oversight by the Board allowed unsupported and questionable payroll payments, personal and questionable purchases, missing assets, and noncompliance with state law to occur. Had proper controls and oversight procedures been in place, it is likely some of the problems noted in this report may have been detected more timely and/or prevented.



Recommendation

The Board of Commissioners segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.

Auditee's Response

We will perform documented reviews of all district records including payroll, accounts payable, and inventory records.

4. Payroll and Related Matters

Significant improvement over payroll controls and procedures is needed. The district's payroll costs were \$100,012 in 2014 and \$70,125 in 2015.

4.1 Timesheets and leave records

Significant improvement is needed in the timesheets and leave records maintained by the district.

- Records of time worked or leave taken and earned were not prepared by former employees or the former secretary/treasurer. Former employees and officials indicated the foreman would call the secretary/treasurer and indicate how many hours to pay each employee (including himself) for hours worked (including overtime), holidays, and vacation and sick leave taken.
- Currently, a timesheet is prepared each pay period by the foreman that shows the time worked for all employees, but the timesheet is not signed by any of the employees and is not always signed by the foreman. In addition, leave records currently maintained do not adequately track the number of hours of vacation and sick leave earned, used, and any remaining balances.

Without timesheets or a record of leave taken, the district cannot ensure hours worked and leave earned and taken by employees are properly documented. To ensure the accuracy of the hours worked, time recorded, and leave taken, timesheets should be signed by the employee and reviewed and approved by the supervisor. Without adequate leave records, the Board cannot ensure employee leave usage and balances are accurate. Leave records also aid in determining final compensation for employees leaving district employment.

4.2 Personnel policies

The district had not established personnel policies addressing overtime, holidays, vacation and sick leave, employee benefits, allowances, requirements for the preparation of timesheets or leave records, or the employment and supervision of related employees. As a result, many payroll disbursements to employees were unsupported and questionable as noted in MAR finding number 1.3.

The district has not established adequate personnel policies for current employees. In January 2015, the current Board implemented employment agreements with each employee. While the employment agreements address various issues such as paid holidays, leave policies, and work schedules,



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some issues are not adequately addressed. These issues include guidance on timing of sick leave accrual, requirements to prepare timesheets and leave records, methods for calculating overtime, benefits available to part-time employees, and clothing allowances.

The former foreman directly supervised his son and first cousin, who were the only full-time employees of the district. The supervision of related employees can compromise a supervisor's objectivity when assigning duties, tracking leave, approving payroll, or evaluating employee performance.

Written personnel policies and/or adequately detailed employment agreements are necessary to ensure equitable treatment of employees and prevent misunderstandings.

4.3 Personnel files

Personnel files were not maintained for the district's 3 former employees. Personnel files should at a minimum contain documentation of the board's authorization for hiring the employee, the employee's authorized pay rate, 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 payroll withholding and taxes. Additionally, according to the Immigration Reform and Control Act of 1986, an individual may not begin employment unless an I-9 form is completed. Employers are subject to civil or criminal penalties if they do not comply. Without adequate personnel records, there is less assurance payments to employees are properly authorized.

4.4 Payroll taxes

Payroll taxes were not remitted timely to the IRS for the period June 2014 to March 2015, resulting in assessments of penalties and interest totaling \$1,212.

The Internal Revenue Code requires employers to file a 941 form by the last day of the month following the end of the quarter, along with payment of Social Security and Medicare taxes withheld from employees and the employer's share, as well as federal income taxes withheld.

4.5 Payroll advances and check dates

Pay advances were issued on 6 occasions to the district's 3 employees in 2014 and 2013 totaling \$15,015. The secretary/treasurer indicated she sometimes issued payroll checks in advance of the employee or herself taking vacation.

In addition, some checks were issued that cleared the bank in advance of the dates recorded on the actual checks and in the accounting system. Also, the dates recorded on the actual checks differed from those recorded in the accounting system.

Advance payments of employee compensation are loans of the district's funds. The Board had no statutory authority to make loans and Article VI,



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Section 23, Missouri Constitution, specifically prohibits counties, cities, or other political subdivisions of the state from granting public money or things of value to any corporation, association, or individual. To properly account for all monies disbursed, all checks should be dated on the date disbursed.

Recommendations

The Board of Commissioners:

- 4.1 Ensure timesheets are prepared, properly signed and approved, and retained for all employees. In addition, the Board should ensure employee leave balances are properly tracked and monitored.
- 4.2 Adopt detailed personnel policies and/or employment agreements addressing requirements of employees and benefits provided. In addition, the policies should address the employment and supervision of relatives.
- 4.3 Maintain personnel files for all district employees.
- 4.4 Establish procedures to ensure payroll taxes are remitted to the appropriate taxing entity timely.
- 4.5 Discontinue providing payroll advances. The Board should also ensure regular payroll checks are not issued prior to the end of the pay period to which they pertain, and the dates recorded on payroll checks and in the accounting records agree.

Auditee's Response

- 4.1 *We have implemented timesheets and will ensure they are properly signed and approved and retained for all employees. We will ensure employee leave balances are properly tracked and monitored.*
- 4.2 *We will adopt more detailed personnel policies addressing requirements of employees, benefits provided, overtime, and related employees.*
- 4.3 *We currently have personnel files for all district employees.*
- 4.4 *We will ensure payroll taxes are remitted timely.*
- 4.5 *We will discontinue providing payroll advances. We will ensure regular payroll checks are not issued prior to the end of the pay period to which they pertain, and dates recorded on the payroll checks and in the accounting records agree.*



5. Disbursements

5.1 Fuel

Controls and procedures over district disbursements need improvement.

The district does not have procedures to review and evaluate the reasonableness of vehicle usage and does not reconcile fuel usage to billings. In addition, mileage and fuel logs are not maintained for the district vehicles and equipment. Also, meters at district pumps were not working properly until April 2016, when they were repaired. District employees started estimating how much fuel was pumped from the bulk tanks in September 2015, but these records were not reconciled to fuel billings.

The district currently maintains 12 vehicles and motorized pieces of equipment and maintains bulk fuel tanks (unleaded and off-road diesel) at the district shop. The district also utilizes fuel cards at a local gas station to purchase on-road diesel, which is not available at the district shop. Unleaded fuel was also purchased at local gas stations from January to early September 2015, while unleaded bulk fuel tanks were not being utilized.

Overall fuel purchases have significantly decreased between current and former Boards and employees, and some individual fuel purchases were questionable. The following table presents fuel purchases by type from January 1, 2012, through December 31, 2015. This information was obtained from fuel vendors and district records.

Type of Fuel Purchased	Year Ended December 31,							
	2015		2014		2013		2012	
	Amount	Gallons	Amount	Gallons	Amount	Gallons	Amount	Gallons
Bulk off-road diesel	\$ 5,349	2,371	\$ 9,844	2,762	\$ 14,832	4,080	\$ 22,215	6,167
Off-road diesel-gas station	49	29	587	173	0	0	0	0
Subtotal off -road diesel	5,398	2,400	10,431	2,935	14,832	4,080	22,215	6,167
On-road diesel-gas station	1,728	724	3,368	942	403	111	1,706	424
Bulk unleaded	1,840	806	9,365	2,869	11,267	3,347	11,624	3,443
Unleaded-gas station	2,128	943	53	17	0	0	0	0
Subtotal unleaded	3,968	1,749	9,418	2,886	11,267	3,347	11,624	3,443
Total	\$ 11,094	4,873	\$ 23,217	6,763	\$ 26,502	7,538	\$ 35,545	10,034

There were no records of fuel pumped maintained prior to September 2015 to help explain the large amounts of fuel purchased in 2014, 2013, and 2012 in comparison to 2015. The gallons of unleaded fuel purchased has decreased 50 percent from 2012 to 2015, and the gallons of off-road diesel purchased has decreased 39 percent from 2012 to 2015. In addition to the significant change in overall fuel use and costs, we also identified several questionable fuel purchases at gas stations made by former employees. Examples of these purchase include:

- Someone purchased 17 gallons of unleaded fuel using a district fuel card on Sunday, September 14, 2014, which was likely a personal purchase. Unleaded district vehicles have much larger fuel tanks, which



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hold 38 to 50 gallons of fuel, and unleaded fuel was available at the district shop (approximately 5 miles from the gas station where the fuel was obtained.) Therefore, it is unlikely this fuel purchase was for a district vehicle. In addition, this was the only unleaded fuel purchase made using a fuel card from 2012 to 2014.

- Purchases of approximately 113 gallons of on-road diesel totaling \$406 using a district fuel card at a local gas station occurred on 4 weekends in 2014 and 2013.
- Someone purchased 33 gallons of on-road diesel for \$121 using a district fuel card in Purdy, Missouri, in March 2014. Purdy is 27 miles from the district shop and is outside of Lawrence County and the district.
- During 2012 and 2014, more than 100 gallons of on-road diesel was pumped on 6 occasions when the maximum fuel capacity of any district vehicle fuel tank was 100 gallons. Purchases of 826 gallons for approximately \$3,000 occurred on these 6 occasions.

Maintaining and reviewing vehicle usage logs and comparing usage to fuel purchases is necessary to ensure vehicles and equipment are properly utilized, prevent paying vendors for improperly billed amounts, and decrease the risk of theft or misuse of fuel occurring without detection.

5.2 Other questionable purchases

Invoices for many items purchased by the district listed the former foreman's personal address as the billing and/or shipping address. Because the district allowed employees to make personal purchases and many of the items purchased could be used by the foreman personally or in his business, we could not determine whether all of the purchases were for the district. In addition, many of these invoices had not been retained by the district and we contacted vendors to obtain documentation. The former foreman indicated items were shipped to his personal address because the district did not have a physical mailing address and used a post office box, and because gates at the district shed were often locked during the day.

The following table lists information regarding items purchased by the district, totaling \$12,852, but the billing and/or shipping address on the invoices was the former foreman's personal residence.

Items Purchased	Amount	Years When Purchased
Lubricants, additives, aerosols, and air fresheners	\$ 4,849	2012 to 2014
Tools, parts, and lubricants	6,585	2011 to 2014
Tractor parts, washers, nuts, and bolts	1,418	2013 to 2014



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District funds were also used to purchase significant quantities of questionable or unnecessary items during 2014 and 2013. According to accounting records and invoices, the district purchased significant quantities of paint, enamel, primer, and paint thinner, several pairs of racing and camo gloves, vehicle parts for vehicles apparently not owned by the district, and numerous packages of batteries. The current district foreman indicated the district does not regularly use these items in large quantities. In addition, the district paid \$1,420 for Internet service even though the district did not have a computer.

The district's residents have placed a fiduciary trust in their public officials to spend tax revenues in a necessary and prudent manner. The Board should ensure all items purchased are shipped to the district shop and district funds are spent only on items necessary and beneficial to the district.

5.3 Disbursement review and documentation Improvement is needed in the district's disbursement review procedures to ensure all disbursements are proper and adequately documented.

Review and approval process Board commissioners did not document their review and approval of monthly lists of bills. In addition, invoices were not thoroughly reviewed by district personnel, generally not marked paid or otherwise canceled, and did not always have documentation acknowledging receipt of goods or services.

Duplicate payments We noted 5 duplicate payments in 2014 totaling \$1,143 and 10 duplicate payments in 2013 totaling \$3,212. One of the payments in 2013 totaling \$889 was identified as a duplicate payment by the vendor and a refund check was issued to the district in February 2013. However, the check was not deposited until May 2013, and the bank returned the check because the vendor's account had closed. The district failed to follow up with the vendor to resolve the issue, and as a result, this amount has not been recouped. The district received refunds/credits from vendors for all other duplicate payments.

We noted another duplicate payment of \$21,094 during the year ended December 31, 2015. The payment was originally made on September 28, 2015, and then again on October 26, 2015. The vendor applied \$5,842 to charges made after the original payment and issued a refund check totaling \$15,252 to the district.

Supporting documentation In addition to the lack of documentation identified in MAR finding number 1, the district did not maintain adequate documentation of some disbursements. The district did not maintain documentation for 13 disbursements totaling \$19,348 and did not have adequately detailed supporting documentation for 77 other disbursements totaling \$106,263 in 2014. For example, payments were often made from summary statements, and detailed invoices documenting quantity, prices, and items purchased were not retained.



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To safeguard against possible loss or misuse of funds, the Board should approve all disbursements and review supporting documentation, bank information, and canceled checks. Board approval of disbursements should be documented by signing or initialing the monthly list of bills. Canceling invoices and other supporting documentation reduces the likelihood of duplicate payments, and requiring acknowledgement of the receipt of goods or services prior to payment helps ensure the district actually received all items. To ensure obligations were actually incurred and amounts paid were proper, all disbursements should be supported by paid receipts, itemized vendor invoices or other detailed documentation with payment information clearly indicated.

5.4 District checks

The former Board did not have adequate controls over checks.

- The district sometimes issued checks with only 1 signature, when the normal procedure required 2 signatures. The district issued 140 checks totaling \$112,177 with only 1 commissioner's signature during the year ended December 31, 2014. The district issued approximately 320 checks that year.
- The secretary/treasurer, who was not an authorized check signer until October 1, 2014, signed 11 checks totaling \$4,528 before becoming an authorized check signer, including 1 check issued to herself for \$367. It is questionable why that Board authorized the appointed secretary/treasurer, who performed all accounting duties, to sign checks.

Dual authorized signatures of board commissioners help provide assurance that checks represent payment for legitimate district disbursements.

- Board commissioners indicated some blank checks were signed in advance to be used for payroll checks. Signing blank checks in advance is a significant control weakness and increases the risk of misuse of monies.
- The secretary/treasurer did not properly account for the numerical sequence of checks and retain voided checks. Some checks issued could not be accounted for in the accounting system. The secretary/treasurer indicated she was unsure why the checks were not in the accounting system, but thought they were most likely printed in error and shredded. To properly account for all disbursements, the numerical sequence of checks issued should be accounted for, and voided checks should be properly defaced and retained.

5.5 Late fees

Bills were not paid timely, and the district incurred late payment fees. The district paid \$1,689 in late fees in 2014 and \$865 in late fees in 2015. To



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prevent these unnecessary costs, procedures should be in place to ensure bills are paid timely.

5.6 1099-MISC forms

The district does not have a procedure in place to prepare and file 1099-MISC forms with the IRS as required. During 2014 and 2015 the district did not file any 1099-MISC forms. In addition, 1099-MISC forms were not issued to 3 board commissioners for payments totaling \$9,730 identified in MAR finding number 1.1.

Sections 6041 through 6050W of the Internal Revenue Code require payments of \$600 or more 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 1099-MISC forms. To ensure compliance with IRS requirements, the district should establish procedures to ensure 1099-MISC forms are issued in all applicable instances.

5.7 Procurement procedures

The district did not have a formal bidding policy and bids were not obtained for any goods or services during 2014. Significant purchases of goods and services not bid include rock (\$32,206), fuel (\$26,041), asphalt (\$20,880), a used dump truck (\$12,500), and hauling services (\$10,553). The district still has not established a formal bid policy.

Formal bidding procedures for major purchases or services provide a framework for economic management of district resources and help ensure the district receives fair value by contracting with the lowest or best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in district business.

Recommendations

The Board of Commissioners:

- 5.1 Establish adequate procedures and records to effectively monitor fuel use for reasonableness. The Board should work with law enforcement authorities to further investigate fuel use and purchases, and take the necessary action to recover any personal fuel purchases.
- 5.2 Ensure all purchases are shipped to the district shop and are a necessary and prudent use of district funds. The Board should work with law enforcement authorities to further investigate questionable purchases, and take the necessary action to obtain reimbursement for any personal purchases.
- 5.3 Ensure its approval of the list of bills is documented, and the approved list of bills is compared to invoices and checks written. In addition, the Board should ensure invoices are adequately reviewed



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and marked paid to prevent duplicate payments, and require documentation of receipt of goods and/or services prior to payment of invoices. The Board should also maintain adequate supporting documentation for all disbursements.

- 5.4 Ensure two board commissioners sign all checks and prohibit the practice of signing blank checks in advance. In addition, the Board should ensure the numerical sequence of checks is properly accounted for, and voided checks are retained.
- 5.5 Implement procedures to ensure bills are paid timely.
- 5.6 Prepare and file 1099-MISC forms with the IRS as required.
- 5.7 Establish formal bidding policies and procedures, including documentation requirements regarding bid specifications, the bids or quotes received, and justification for bids selected.

Auditee's Response

- 5.1 *We have implemented some fuel records and will reconcile fuel purchases and use to fuel billings. We will work with law enforcement authorities to further investigate fuel use and purchases and will take the necessary action to recover any personal fuel purchases.*
- 5.2 *All district purchases are now shipped to the district shop and are reviewed to ensure they are necessary and prudent purchases. We will work with law enforcement authorities to further investigate questionable purchases and will take the necessary action to recover any personal purchases.*
- 5.3 *We will ensure we document the approval of bills and will ensure bills are compared to invoices and checks written. We will ensure invoices are adequately reviewed and marked paid to prevent duplicate payment, and will require documentation of receipt of goods and/or services prior to payment of invoices. We will maintain adequate supporting documentation for all disbursements.*
- 5.4 *We will ensure two commissioners sign all checks and will not sign checks in advance. We will ensure the numerical sequence of checks is properly accounted for, and voided checks are retained.*
- 5.5 *We will implement procedures to ensure bills are paid timely.*
- 5.6 *We will implement procedures to prepare and file 1099-MISC forms with the IRS as required.*



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5.7 *We will establish formal bidding policies and procedures, including documentation requirements regarding bid specifications, the bids or quotes received, and justification for bids selected.*

6. Accounting Controls and Procedures

Receipt slips are not issued, monies received are not always deposited timely, bank reconciliations are not performed, and accounting records maintained are not accurate.

6.1 Receipting and depositing procedures

The district's receipting and depositing procedures are poor. As a result, there is no assurance all monies collected are properly receipted or deposited.

- Official prenumbered receipt slips are not issued for monies received.
- Monies received are not always deposited timely. For example, a \$579 check dated and received April 9, 2015, was not deposited until April 27, 2015, We identified another 25 checks deposited from 9 to 180 days after the check date.

To reduce the risk of loss, theft, or misuse of monies received going undetected, procedures should be established to ensure all monies received are properly receipted and deposited timely.

6.2 Bank reconciliations

Formal bank reconciliations had not been prepared for the district's 2 bank accounts during the year ended December 31, 2015, and through April 2016. At December 31, 2015, the bank balances in the district's checking and money market bank accounts were \$19,727 and \$110,892, respectively.

Without preparing monthly bank reconciliations, there is little assurance cash receipts and disbursements have been properly handled and recorded. In addition, accounting and bank errors may not be detected and corrected timely.

6.3 Accounting records

The district does not maintain accurate accounting records. We identified various errors and omissions in district accounting records.

- The 2014 monthly financial reports generated from the accounting systems and presented to the Board for review were not accurate and complete. Line of credit advances (\$53,800) and principal and interest payments (\$76,956) and equipment loan payments (\$17,565) were not included in the accounting system and financial reports generated for the Board's review in 2014.



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- The 2015 monthly financial reports generated from the accounting system and presented to the Board for review were also not accurate and complete. Line of credit principal and interest payments (\$85,402), vehicle loan payments (\$28,758), equipment purchases (\$23,182), and costs to construct a pole barn (\$22,900) were not included in the accounting system and financial reports generated for the Board's review in 2015. In addition, other payments to vendors were understated on the monthly financial reports presented to the Board.

Accurate and complete financial information is necessary for the Board to make informed decisions and to provide residents with reliable information about district finances. Inaccurately recorded transactions make it more difficult to detect loss or misuse of funds.

Recommendations

The Board of Commissioners:

- 6.1 Ensure official prenumbered receipt slips are issued for all monies received and the numerical sequence of receipt slips is accounted for properly. The method of payment should be documented and the composition of receipts reconciled to the composition of deposits. Additionally, the Board should ensure receipts are deposited timely.
- 6.2 Ensure monthly bank reconciliations are performed and any differences are promptly investigated and resolved.
- 6.3 Ensure accounting records are accurately maintained.

Auditee's Response

- 6.1 *We will ensure official prenumbered receipt slips are issued for all monies received and the numerical sequence of receipt slips is accounted for properly. We will ensure the method of payment is documented and the composition of receipts is reconciled to the composition of deposits. We will ensure receipts are deposited timely.*
- 6.2 *We will ensure bank reconciliations are performed monthly. We will ensure any differences are investigated and resolved.*
- 6.3 *We will ensure accounting records are accurately maintained.*

7. Budgetary Procedures and Financial Reporting

The district does not comply with state law relating to budget preparation and monitoring, and submitting financial statements.



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7.1 Budgetary procedures

The Board does not have adequate procedures to prepare or monitor budgets.

Preparation and accuracy

The district's budgets do not contain all statutorily required elements. The 2014 and 2015 budgets did not include a budget message, and budgeted amounts for the 2 preceding years. In addition, beginning available resources and estimated and actual ending available resources were not included in the 2015 or 2016 budgets, but are needed to present a complete financial plan for district finances. Budget documents also did not present accurate actual receipt and disbursements due to problems noted in MAR finding number 6.3, and the Board approved a deficit fund balance of (\$148,555) on the 2014 budget.

Section 67.010, RSMo, requires the budget to present a complete and accurate financial plan for the ensuing budget year, outlines the various information to be included in the budget, and prohibits deficit budgeting. A complete budget should include the beginning available resources and a reasonable estimate of the ending available resources. An accurate, 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 district operations.

Monitoring

The Board did not adequately monitor budget-to-actual receipts and disbursements. Actual disbursements exceeded budgeted amounts by \$58,206 in 2014 and \$181,590 in 2015.

Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted, but allows for budget increases if the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no disbursement of public monies should be made unless it is authorized in the budget. Proper budget monitoring and amending of them when applicable is necessary for budgets to be an effective management tool and comply with state law.

7.2 Financial reporting

The district did not file a financial report with the State Auditor's Office for the year ended December 31, 2014. Section 105.145, RSMo, requires certain political subdivisions to file an annual financial report with the State Auditor's Office, and 15 CSR 40-3.030 requires an annual financial report be submitted within 6 months after the end of the political subdivision's fiscal year.



Recommendations

The Board of Commissioners:

- 7.1 Prepare accurate annual budgets that contain all information required by state law, and ensure the budget and financial condition are adequately monitored.
- 7.2 Submit an annual financial report to the State Auditor's Office as required by state law.

Auditee's Response

- 7.1 *We will ensure annual budgets are accurately prepared and will ensure the budget and financial condition are adequately monitored.*
- 7.2 *We will ensure an annual financial report is submitted to the State Auditor's Office as required by state law.*

8. Sunshine Law Issues and Record Retention

The district did not always ensure compliance with the Sunshine Law, and the district needs to improve procedures for record retainage.

8.1 Meeting minutes

The Board of Commissioners did not always comply with the Sunshine Law.

- Neither the Board nor district personnel retained meeting minutes for meetings held prior to October 27, 2014. Although the former foreman provided some meeting minutes for past years (2000 to 2007 and 2012), none were provided for the periods 2008 to 2011 and 2013 to October 2014.
- A roll call vote to enter into a closed session and the reason for closing the meeting, including a reference to a specific section of the law, was not documented for the 7 closed sessions held from December 2014 through January 2016. In addition, notice was not properly given for 6 of these 7 closed sessions.
- Some issues discussed in closed meetings held from December 29, 2014, through January 25, 2016, were not allowable under the Sunshine Law. For example, the hourly wages and fringe benefits offered to newly hired employees and the amount of employee raises were repeatedly discussed in closed meetings.

The Sunshine Law, Chapter 610, RSMo, limits discussions in closed meetings to only those specifically allowed by law; requires governmental bodies to prepare and maintain minutes of open and closed meetings; and



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requires minutes to include at a minimum the date, time, place, members present, members absent and votes taken, including roll call votes before closing a meeting. The law also requires meeting notice (including closed sessions) be given at least 24 hours prior to all meetings of a public governmental body.

8.2 Record retention

Many bank statements, invoices, and other financial records could not be located and were obtained from the bank, the former secretary/treasurer, and district vendors. The district did not require the former secretary/treasurer to return various accounting records to the district upon her resignation.

Retention of records is necessary to ensure the validity of transactions and provide an audit trail. In addition, Section 109.270, RSMo, provides that all records made or received by an official in the course of their public duties are public property and are not to be disposed of except as provided by law.

Recommendations

The Board of Commissioners:

8.1 Ensure meeting minutes are maintained for all meetings, and the vote to close a session is documented in the open minutes, along with the reason for closing the session. In addition, the Board should ensure meeting notices are given for all district meetings and only allowable subjects are discussed in closed session.

8.2 Retain records in accordance with state law.

Auditee's Response

8.1 *We will ensure meeting minutes are maintained for all meetings, and the vote to close a session is documented in the open minutes along with the reason for closing the session. We will ensure meeting notices are given for all district meetings and only allowable subjects are discussed in closed session.*

8.2 *We will ensure records are retained in accordance with state law.*

9. Road Maintenance

An annual maintenance plan has not been prepared to document expected work on district roads and bridges, a listing of district roads is not maintained, and the district paved 2 private roads.

9.1 Maintenance plan

The district has not developed a formal annual maintenance plan for district roads and bridges, and does not maintain a listing of public roads under its legal authority.

A formal maintenance plan and a list of public roads under its legal authority should be prepared in conjunction with the annual fiscal budget and include a description of the roads and bridges needing maintenance, the type of work to be performed, an estimate of the quantity and cost of



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materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan could be included in the budget message and approved by the Board. In addition, a public hearing should be held to obtain input from district citizens.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. A plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of roads and bridges throughout the year.

9.2 Private roads

During 2012, the district paved 2 private roads, did not retain documentation showing how billed amounts were calculated, and did not seek reimbursement of some of the related paving costs.

One of the private roads (Lawrence 1242) belonged to then Commissioner Godwin, who reimbursed the district \$2,700 for the paving work. Godwin indicated his road was two-tenths mile and the cost to pave it was based on annual bids obtained by Lawrence County to pave 1 mile of road. However, based upon the county's bid documents we obtained, Godwin should have paid \$3,000 (\$1,500 per tenth of mile). In addition, the costs to pave the other private road (Lawrence 1241), which was one-tenth mile, were reimbursed by a citizen at \$1,300 or \$300 less than costs based on county bid documents.

Special road districts do not have the authority to maintain private roads. Section 233.070, RSMo, states a special road district board has sole, exclusive and entire control and jurisdiction over all public highways within its district outside the corporate limits of any city or village and at all times will keep the public roads under its charge in as good repair as funding will permit. In addition, Article VI, Section 23, Missouri Constitution, specifically prohibits counties, cities, or other political subdivisions of the state from granting public money or things of value to any corporation, association, or individual.

Recommendations

The Board of Commissioners:

- 9.1 Establish a formal annual maintenance plan for district roads and bridges and a listing of all public roads within the district.
- 9.2 Ensure maintenance is performed only on public roads and seek reimbursement of the remaining costs for paving the two private roads.



Auditee's Response

- 9.1 *We will establish a formal maintenance plan for district roads and bridges and a listing of all public roads within the district.*
- 9.2 *We will ensure maintenance is performed only on public roads and will seek reimbursement for the remaining costs to pave the 2 private roads.*

10. Capital Asset and Inventory Records

Several assets purchased by the district are missing, and capital asset and inventory records and procedures need improvement.

10.1 Missing assets

Several items purchased by the district in 2014 and 2013, totaling \$1,822, were not listed on the district's capital asset inventory conducted in January 2015, and have not been located on district property. The missing items include:

Description	Amount
12 volt hydraulic power unit	\$ 400
Welding outfit	300
DeWalt hammer drill & impact driver	295
DeWalt chop saw	202
Welding helmet	185
Welding helmet	130
DeWalt cordless reciprocating saw	110
Aluminum spray gun	100
Welding helmet	100

To ensure the validity and propriety of district purchases and to decrease the risk of theft or misuse of district assets occurring without detection, procedures should be established to monitor and account for items purchased.

10.2 Capital assets

The district did not maintain detailed capital asset records including land, buildings, vehicles, equipment, and other personal property. Former district employees prepared a list of district vehicles and equipment in October 2014, at the request of Board Commissioner Beard. In January 2015, an inventory was conducted and a detailed list of vehicles, equipment, and other personal property (such as small engine equipment, hand tools, supplies, and culverts) was prepared by the current Board. However, the current capital asset records do not include district land and buildings, and the district does not tag district assets for specific identification.



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Adequate capital asset records and procedures are necessary to secure better internal control over district property. Capital asset records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur, and include a detailed description of the assets such as acquisition costs, descriptions, make and model number, and asset identification numbers; the physical location of the assets; and the date and method of disposition of assets. Capital assets should be identified with a tag or similar device, and the district should conduct annual physical inventories and compare the results to the detailed property records.

10.3 Inventory records

Inventory records are not maintained to account for supplies and materials purchased or stored for the daily operations of the district. The district typically stores gravel, salt, culverts, and other supplies at the district shop. Without inventory records, the Board cannot effectively evaluate the reasonableness of purchases and usage of supplies and materials, and theft and improper usage may go undetected.

Recommendations

The Board of Commissioners:

- 10.1 Establish controls and procedures to monitor and account for items purchased, investigate unaccounted for items, and take necessary action to recover any missing items.
- 10.2 Ensure complete capital asset records are maintained, assets are properly tagged for identification, and annual physical inventories are performed and compared to detailed records.
- 10.3 Maintain adequate inventory records to account for district supplies and materials.

Auditee's Response

- 10.1 We will establish controls and procedures to monitor and account for items purchased. We will investigate the missing items and will take the necessary action to recover the items.*
- 10.2 We will ensure complete capital asset records are maintained, assets are properly tagged, and annual physical inventories are performed and compared to detailed records.*
- 10.3 We will ensure adequate inventory records are maintained for some district supplies and materials, such as culverts.*

Buck Prairie Special Road District Organization and Statistical Information

Buck Prairie Special Road District was incorporated in 1902 and organized under Section 233 through Section 233.165, RSMo. The district maintains 95 miles of road in southeastern Lawrence County, Missouri. The Board of Commissioners consist of three commissioners who serve 3-year terms. The commissioners elect a President and Vice President of the board.

Board of Commissioners

Name	Dates of Appointment
Current:	
Lorene Beard, President	August 2014
John Oczkus, Vice President	December 2014
Jule Dotson	December 2014
Name	Dates of Service
Former:	
Terry Metcalf	April 2006-November 2014
Randy Stine	April 2014-November 2014
Randall Gamble	April 2012-June 2014
Gene Godwin	April 2008-April 2014
Terry Hickman	October 2004-April 2012

Employees

Name	Job Title	Date of Hire
Current:		
Dustin Miller	Foreman*	January 2015
Bernard Fabro	Part-time employee	January 2015
Billie Silvils	Full-time employee	August 2015
Name	Job Title	Dates of Service
Former:		
Blaine Morris	Foreman	1995-November 2014**
Scott Killman	Full-time employee	1995-November 2014**
Austin Morris	Full-time employee	2005-November 2014**

* Dustin Miller became the foreman in August 2015, when Randall Gamble resigned. Randall Gamble was hired in January 2015, and resigned in July 2015.

** Dates of service provided by the former foreman.

Secretary/Treasurer

Heather Davis served as the district's secretary/treasurer from 2010 until November 2014. Michael Kaup was appointed in December 2014, and currently serves in that role. Heather Davis received compensation of \$4,076 during the year ended December 31, 2014, and Michael Kaup received compensation of \$3,701 during the year ended December 31, 2015.

Financial Activity

For comparative purposes, a summary of the district's financial activity for the years ended December 31, 2015, and 2014, follows:



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	Year Ended December 31,	
	2015	2014
RECEIPTS		
Capital improvement sales tax	\$ 138,627	120,472
Property taxes	144,315	142,407
County aid road trust	96,983	91,422
Railroad crossing closure incentive	235,000	0
Line of credit advances	0	53,800
Interest	111	10
Other	5,422	6,955
Total Receipts	<u>620,458</u>	<u>415,066</u>
DISBURSEMENTS		
Accounting and professional services	3,701	4,076
Advertisements	1,024	19
Building and equipment	74,840	17,565
Contract labor	450	5,651
Fuel and oil	12,936	20,650
Equipment repairs	22,949	20,811
Insurance	17,885	31,856
Line of credit payments and interest	85,402	76,956
Miscellaneous	105	3,116
Payroll and employee withholdings	70,125	100,012
Employer tax contributions	5,365	7,651
Unemployment and payroll penalties	13,887	267
Road repairs	190,662	105,843
Supplies	3,696	7,585
Telephone	1,447	3,814
Utilities	2,671	4,951
Total Disbursements	<u>507,145</u>	<u>410,823</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	113,313	4,243
CASH, January 1	<u>10,963</u>	<u>6,720</u>
CASH, December 31	<u>\$ 124,276</u>	<u>10,963</u>