



**STONE COUNTY, MISSOURI
TWO YEARS ENDED DECEMBER 31, 2000**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2002-12
February 8, 2002
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

February 2002

IMPORTANT: The Missouri State Auditor is required by Missouri law to conduct audits only once every four years in counties, like Stone, which do not have a county auditor. However, to assist such counties in meeting federal audit requirements, the State Auditor will also perform a financial and compliance audit of various county operating funds every two years. This voluntary service to Missouri counties can only be provided when state auditing resources are available and does not interfere with the State Auditor's constitutional responsibility of auditing state government.

Once every four years, the State Auditor's statutory audit will cover additional areas of county operations, as well as the elected county officials, as required by Missouri's Constitution.

This audit of Stone County was a financial and compliance audit of various county operating funds. The following concerns were noted as part of the audit:

The county's overall planning, monitoring and record keeping procedures for the Black Oak Mountain Resort and Edgewater Village Neighborhood Improvement Districts (NID) were inadequate. Our review identified:

- Several companies receiving payments totaling more than \$430,000 from NID funds appear to be related and have the appearance of a conflict of interest. Further, documentation to support transactions with these related companies was inadequate and questionable.
- A total of \$445,844 was spent to pave the roads within the Black Oak Mountain Resort NID. The proposal for this project totaled only \$240,700. There were no change orders to support the additional amount paid, and the invoices were not sufficient to document what services were provided. Further, included in the \$445,844 was approximately \$32,000 for paving of a parking lot on private property. The County Commission is uncertain if the NID was properly reimbursed the \$32,000.
- Adequate documentation was not maintained for several expenditures, and duplicate payments appear to have been made on more than one occasion.
- The County Commission did not approve or review documentation of expenditures totaling approximately \$1,656,500 from the Edgewater Village NID. In addition, the County Commission did not review bids for work performed by a construction company owned by the developer of the Edgewater Village NID.

(over)

YELLOW SHEET

The county is ultimately responsible for the repayment of the more than \$5 million in the NID limited general obligation bonds. It is unclear why officials took such a “hands off” approach to these NIDs, as such officials still have a fiduciary responsibility to properly monitor the NID funds.

The county does not have adequate procedures to ensure budgets are prepared for all county funds. As a result, disbursements totaling more than \$4.3 million and \$7.5 million in 2000 and 1999, respectively, were not budgeted. The lack of budgetary information for the various county funds, especially the NID fund, is a significant omission from the county's financial statements.

The County Commission responded that they agree that an annual budget should be prepared by it as a governing body of each NID, and will do so. However, the County Commission provided a similar response to our prior audit, but no budgets were prepared.

The Stone County Emergency 911 Board did not effectively monitor the general contractor and ensure bids were competitively solicited for the construction of the 911 building costing approximately \$400,000. Additionally, improvement is needed in the 911 Board's expenditure procedures, budgetary procedures, and personnel procedures.

The audit also includes some matters related to budgets, federal awards, county expenditures, county property, officials' salaries, personnel records, and Health Center Board procedures upon which the county should consider and take appropriate corrective action.

All reports are available on our website: www.auditor.state.mo.us

STONE COUNTY, MISSOURI

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FINANCIAL SECTION

State Auditor's Reports



CLAIRE C. McCASKILL
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS

To the County Commission
and
Officeholders of Stone County, Missouri

We have audited the accompanying special-purpose financial statements of various funds of Stone County, Missouri, as of and for the years ended December 31, 2000 and 1999, as identified in the table of contents. These special-purpose financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of presenting the receipts, disbursements, and changes in cash of various funds of Stone County, Missouri, and comparisons of such information with the corresponding budgeted information for various funds of the county and are not intended to be a complete presentation of the financial position and results of operations of those funds or of Stone County.

As more fully described in Note 1 to the financial statements, the county's financial statements do not include statements of receipts, disbursements, and changes in cash - budget and actual for various funds totaling \$6,365,784 and \$5,338,705 in receipts, and \$4,359,666 and \$7,576,789 in disbursements for the years ended December 31, 2000 and 1999, respectively. Statements of receipts, disbursements, and changes in cash - budget and actual are required by the comprehensive basis of accounting discussed in Note 1.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash of various funds of Stone County, Missouri, and comparisons of such information with the corresponding budgeted information for various funds of the county as of and for the years ended December 31, 2000 and 1999, in conformity with the comprehensive basis of accounting discussed in Note 1, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated October 25, 2001, on our consideration of the county's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Claire McCaskill
State Auditor

October 25, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Donna Christian, CPA
In-Charge Auditor:	Sharon Eagleburger
Audit Staff:	Sandi Ohern, CPA Michael Brumley



CLAIRE C. McCASKILL
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the County Commission
and
Officeholders of Stone County, Missouri

We have audited the special-purpose financial statements of various funds of Stone County, Missouri, as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated October 25, 2001. That report expressed a qualified opinion on the special-purpose financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the special-purpose financial statements of various funds of Stone County, Missouri, are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as finding number 00-1. We also noted certain immaterial instances of noncompliance, which we have reported to the management of the county in the accompanying Letter on Other Matters.

Internal Control Over Financial Reporting

In planning and performing our audit of the special-purpose financial statements of various funds of Stone County, Missouri, we considered the county's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the county's ability to record, process, summarize, and report financial data consistent with the assertions of management in the special-purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings as finding numbers 00-1 through 00-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider finding numbers 00-1 through 00-3 to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the county in the accompanying Letter on Other Matters.

This report is intended for the information of the management of Stone County, Missouri, and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.



Claire McCaskill
State Auditor

October 25, 2001 (fieldwork completion date)

Financial Statements

Exhibit A-1

STONE COUNTY, MISSOURI
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH - VARIOUS FUNDS
 YEAR ENDED DECEMBER 31, 2000

Fund	Cash, January 1	Receipts	Disbursements	Cash, December 31
General Revenue	\$ 729,097	4,266,487	3,985,052	1,010,532
Special Road and Bridge	404,025	4,332,624	4,137,553	599,096
Assessment	2,178	361,628	386,453	(22,647)
Law Enforcement Training	1,236	5,596	5,280	1,552
Prosecuting Attorney Training	876	897	1,445	328
Capital Improvement	170,924	11,166	74,504	107,586
Special Road and Bridge Projects	(3,030)	82,222	90,302	(11,110)
Special Road and Bridge Capital Improvement	233,338	287,055	24,815	495,578
Recorder User Fee	73,001	40,631	48,064	65,568
Children's Trust/Abuse Victims	2	2,018	0	2,020
Seized Property	3,141	13	2,841	313
Election Services	0	2,154	0	2,154
DARE	3,104	11,100	9,230	4,974
Prosecuting Attorney Bad Check	8,172	11,697	9,570	10,299
Prosecuting Attorney Delinquent Tax	754	1,768	0	2,522
Law Enforcement Civil Fees	2,337	41,030	40,541	2,826
Health Center	536,363	506,232	485,970	556,625
Senior Citizens Service	93,230	149,649	131,982	110,897
Emergency 911	534,338	837,093	1,029,760	341,671
Circuit Clerk Interest	8,354	6,616	5,369	9,601
Law Library	15,534	9,703	9,635	15,602
Neighborhood Improvement Districts	749,806	6,359,846	4,358,235	2,751,417
Community Development Block Grant	0	3,983	0	3,983
Associate Circuit Division Interest	6,686	1,400	1,431	6,655
Probate Division Interest	916	555	0	1,471
Total	\$ 3,574,382	17,333,163	14,838,032	6,069,513

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-2

STONE COUNTY, MISSOURI
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH - VARIOUS FUNDS
 YEAR ENDED DECEMBER 31, 1999

Fund	Cash, January 1	Receipts	Disbursements	Cash, December 31
General Revenue	\$ 644,683	3,678,508	3,594,094	729,097
Special Road and Bridge	822,994	4,040,525	4,459,494	404,025
Assessment	15,237	377,003	390,062	2,178
Law Enforcement Training	0	3,302	2,066	1,236
Prosecuting Attorney Training	1,172	1,177	1,473	876
Capital Improvement	150,173	131,258	110,507	170,924
Special Road and Bridge Projects	(4,846)	140,506	138,690	(3,030)
Special Road and Bridge Capital Improvement	77,487	155,851	0	233,338
Recorder User Fee	77,733	35,800	40,532	73,001
Children's Trust/Abuse Victims	120	3,092	3,210	2
Seized Property	808	17,808	15,475	3,141
DARE	2,119	3,171	2,186	3,104
Prosecuting Attorney Bad Check	8,285	8,273	8,386	8,172
Prosecuting Attorney Delinquent Tax	4,973	2,610	6,829	754
Law Enforcement Civil Fees	386	36,700	34,749	2,337
Health Center	535,129	476,623	475,389	536,363
Senior Citizens Service	125,592	137,582	169,944	93,230
Emergency 911	324,770	1,358,690	1,149,122	534,338
Circuit Clerk Interest	645	17,033	9,324	8,354
Law Library	14,081	9,375	7,922	15,534
Neighborhood Improvement Districts	2,991,943	5,288,358	7,530,495	749,806
Associate Circuit Division Interest	5,598	2,061	973	6,686
Probate Division Interest	774	142	0	916
Total	\$ 5,799,856	15,925,448	18,150,922	3,574,382

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

STONE COUNTY, MISSOURI
 COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH - BUDGET AND ACTUAL - VARIOUS FUNDS

	Year Ended December 31,					
	2000			1999		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
TOTALS - VARIOUS FUNDS						
RECEIPTS	10,497,713	10,967,379	469,666	10,008,056	10,584,133	576,077
DISBURSEMENTS	11,620,550	10,478,366	1,142,184	11,121,221	10,567,304	553,917
RECEIPTS OVER (UNDER) DISBURSEMENTS	(1,122,837)	489,013	1,611,850	(1,113,165)	16,829	1,129,994
CASH, JANUARY 1	2,814,063	2,816,974	2,911	2,785,257	2,785,778	521
CASH, DECEMBER 31	1,691,226	3,305,987	1,614,761	1,672,092	2,802,607	1,130,515
GENERAL REVENUE FUND						
RECEIPTS						
Property taxes	\$ 354,000	388,045	34,045	357,830	351,972	(5,858)
Sales taxes	2,436,288	2,462,740	26,452	2,010,000	2,180,781	170,781
Intergovernmental	420,059	660,773	240,714	439,932	492,411	52,479
Charges for services	571,600	631,491	59,891	555,100	554,576	(524)
Interest	43,200	61,685	18,485	51,500	42,524	(8,976)
Other	51,740	59,591	7,851	220,240	52,382	(167,858)
Transfers in	2,812	2,162	(650)	3,655	3,862	207
Total Receipts	3,879,699	4,266,487	386,788	3,638,257	3,678,508	40,251
DISBURSEMENTS						
County Commission	104,990	104,075	915	102,040	102,334	(294)
County Clerk	93,904	90,784	3,120	89,050	82,003	7,047
Elections	163,688	162,660	1,028	118,582	102,277	16,305
Buildings and grounds	236,704	236,117	587	205,624	202,791	2,833
Employee fringe benefits	315,000	337,403	(22,403)	288,906	272,836	16,070
County Treasurer	58,854	58,148	706	53,200	52,239	961
County Collector	141,129	147,237	(6,108)	121,007	127,071	(6,064)
Ex Officio Recorder of Deeds	90,689	80,307	10,382	84,868	82,115	2,753
Circuit Clerk	19,850	15,236	4,614	23,599	20,812	2,787
Associate Circuit Court	30,170	26,160	4,010	43,494	30,847	12,647
Court administration	101,937	80,332	21,605	107,267	186,396	(79,129)
Sheriff	927,834	928,136	(302)	735,237	816,173	(80,936)
Jail	286,602	345,910	(59,308)	267,278	269,545	(2,267)
Prosecuting Attorney	295,748	285,920	9,828	256,311	256,618	(307)
Juvenile Officer	38,009	37,771	238	87,546	52,457	35,089
County Coroner	17,470	16,584	886	16,320	18,452	(2,132)
Public Administrator	47,650	45,508	2,142	58,740	46,525	12,215
Insurance and bonds	42,000	45,702	(3,702)	56,000	37,054	18,946
Publications	4,000	6,782	(2,782)	4,000	3,120	880
Surveyor	3,000	2,636	364	1,240	488	752
Extension office	37,400	37,400	0	37,400	37,400	0
Emergency Management	13,307	12,308	999	14,920	13,168	1,752
Computer	24,000	21,436	2,564	32,750	34,244	(1,494)
Planning and Zoning	113,058	106,790	6,268	115,375	108,032	7,343
Enhancement	0	93,430	(93,430)	109,018	83,921	25,097
Debt service	236,000	277,057	(41,057)	277,000	277,257	(257)
Other	223,840	66,578	157,262	58,940	57,919	1,021
Transfers out	310,069	312,132	(2,063)	220,000	220,000	0
Emergency Fund	5,000	4,513	487	5,000	0	5,000
Total Disbursements	3,981,902	3,985,052	(3,150)	3,590,712	3,594,094	(3,382)
RECEIPTS OVER (UNDER) DISBURSEMENTS	(102,203)	281,435	383,638	47,545	84,414	36,869
CASH, JANUARY 1	729,097	729,097	0	644,683	644,683	0
CASH, DECEMBER 31	\$ 626,894	1,010,532	383,638	692,228	729,097	36,869

Exhibit B

STONE COUNTY, MISSOURI
 COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH - BUDGET AND ACTUAL - VARIOUS FUNDS

	Year Ended December 31,					
	2000			1999		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>SPECIAL ROAD AND BRIDGE FUND</u>						
RECEIPTS						
Property taxes	\$ 3,000	4,659	1,659	3,500	3,379	(121)
Sales taxes	2,552,077	2,626,714	74,637	2,340,000	2,479,688	139,688
Intergovernmental	1,390,500	1,644,931	254,431	1,499,000	1,485,655	(13,345)
Interest	30,000	37,860	7,860	30,000	34,640	4,640
Other	25,900	18,460	(7,440)	5,000	37,163	32,163
Total Receipts	4,001,477	4,332,624	331,147	3,877,500	4,040,525	163,025
DISBURSEMENTS						
Salaries	776,736	783,541	(6,805)	769,664	743,456	26,208
Employee fringe benefits	168,500	161,861	6,639	166,960	143,570	23,390
Supplies	149,500	179,882	(30,382)	145,500	151,812	(6,312)
Insurance	30,000	29,781	219	40,000	21,212	18,788
Road and bridge materials	1,570,000	1,399,323	170,677	1,840,000	1,695,219	144,781
Equipment repairs	151,000	132,718	18,282	118,000	151,041	(33,041)
Rentals	2,500	2,050	450	5,000	5,000	0
Equipment purchases	500,000	495,667	4,333	500,000	501,645	(1,645)
Construction, repair, and maintenance	82,500	68,584	13,916	84,000	82,823	1,177
Payments to cities	38,050	38,050	0	38,050	38,050	0
Debt service	805,000	803,500	1,500	808,000	802,906	5,094
Other	30,000	42,596	(12,596)	31,000	22,760	8,240
Emergency	25,000	0	25,000	25,000	0	25,000
Transfers out	3,029	0	3,029	100,000	100,000	0
Total Disbursements	4,331,815	4,137,553	194,262	4,671,174	4,459,494	211,680
RECEIPTS OVER (UNDER) DISBURSEMENTS	(330,338)	195,071	525,409	(793,674)	(418,969)	374,705
CASH, JANUARY 1	404,025	404,025	0	822,994	822,994	0
CASH, DECEMBER 31	\$ 73,687	599,096	525,409	29,320	404,025	374,705
<u>ASSESSMENT FUND</u>						
RECEIPTS						
Intergovernmental	\$ 327,647	292,912	(34,735)	303,260	289,444	(13,816)
Interest	0	314	314	0	207	207
Other	22,000	8,333	(13,667)	22,701	17,352	(5,349)
Transfers in	60,069	60,069	0	70,000	70,000	0
Total Receipts	409,716	361,628	(48,088)	395,961	377,003	(18,958)
DISBURSEMENTS						
Assessor	409,716	386,453	23,263	411,198	390,062	21,136
Total Disbursements	409,716	386,453	23,263	411,198	390,062	21,136
RECEIPTS OVER (UNDER) DISBURSEMENTS	0	(24,825)	(24,825)	(15,237)	(13,059)	2,178
CASH, JANUARY 1	2,178	2,178	0	15,237	15,237	0
CASH, DECEMBER 31	\$ 2,178	(22,647)	(24,825)	0	2,178	2,178

Exhibit B

STONE COUNTY, MISSOURI
 COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH - BUDGET AND ACTUAL - VARIOUS FUNDS

	Year Ended December 31,					
	2000			1999		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>LAW ENFORCEMENT TRAINING FUND</u>						
RECEIPTS						
Intergovernmental	\$ 0	2,098	2,098	2,237	2,001	(236)
Charges for services	5,000	3,498	(1,502)	1,500	1,301	(199)
Total Receipts	5,000	5,596	596	3,737	3,302	(435)
DISBURSEMENTS						
Sheriff	5,000	5,280	(280)	3,737	2,066	1,671
Total Disbursements	5,000	5,280	(280)	3,737	2,066	1,671
RECEIPTS OVER (UNDER) DISBURSEMENTS	0	316	316	0	1,236	1,236
CASH, JANUARY 1	1,236	1,236	0	0	0	0
CASH, DECEMBER 31	\$ 1,236	1,552	316	0	1,236	1,236
<u>PROSECUTING ATTORNEY TRAINING FUND</u>						
RECEIPTS						
Charges for services	1,100	897	(203)	1,050	1,026	(24)
Other	\$ 0	0	0	0	151	151
Total Receipts	1,100	897	(203)	1,050	1,177	127
DISBURSEMENTS						
Prosecuting Attorney	1,800	1,445	355	2,222	1,473	749
Total Disbursements	1,800	1,445	355	2,222	1,473	749
RECEIPTS OVER (UNDER) DISBURSEMENTS	(700)	(548)	152	(1,172)	(296)	876
CASH, JANUARY 1	876	876	0	1,172	1,172	0
CASH, DECEMBER 31	\$ 176	328	152	0	876	876
<u>CAPITAL IMPROVEMENT FUND</u>						
RECEIPTS						
Interest	\$ 4,000	6,083	2,083	0	9,733	9,733
Other	0	5,083	5,083	0	21,525	21,525
Transfers in	0	0	0	100,000	100,000	0
Total Receipts	4,000	11,166	7,166	100,000	131,258	31,258
DISBURSEMENTS						
Capital improvements	74,924	74,504	420	250,000	110,507	139,493
Total Disbursements	74,924	74,504	420	250,000	110,507	139,493
RECEIPTS OVER (UNDER) DISBURSEMENTS	(70,924)	(63,338)	7,586	(150,000)	20,751	170,751
CASH, JANUARY 1	170,924	170,924	0	150,173	150,173	0
CASH, DECEMBER 31	\$ 100,000	107,586	7,586	173	170,924	170,751

Exhibit B

STONE COUNTY, MISSOURI
 COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH - BUDGET AND ACTUAL - VARIOUS FUNDS

	Year Ended December 31,					
	2000			1999		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>SPECIAL ROAD AND BRIDGE PROJECTS FUND</u>						
RECEIPTS						
Charges for services	150,000	82,222	(67,778)	104,846	140,506	35,660
Transfers in	\$ 3,030	0	(3,030)	0	0	0
Total Receipts	153,030	82,222	(70,808)	104,846	140,506	35,660
DISBURSEMENTS						
Special road and bridge projects	150,000	90,302	59,698	100,000	138,690	(38,690)
Total Disbursements	150,000	90,302	59,698	100,000	138,690	(38,690)
RECEIPTS OVER (UNDER) DISBURSEMENTS	3,030	(8,080)	(11,110)	4,846	1,816	(3,030)
CASH, JANUARY 1	(3,030)	(3,030)	0	(4,846)	(4,846)	0
CASH, DECEMBER 31	\$ 0	(11,110)	(11,110)	0	(3,030)	(3,030)
<u>SPECIAL ROAD AND BRIDGE CAPITAL IMPROVEMENT FUND</u>						
RECEIPTS						
Intergovernmental	\$ 209,000	24,815	(184,185)	0	0	0
Interest	7,000	12,240	5,240	4,000	5,851	1,851
Transfers in	250,000	250,000	0	150,000	150,000	0
Total Receipts	466,000	287,055	(178,945)	154,000	155,851	1,851
DISBURSEMENTS						
Capital improvements	699,338	24,815	674,523	40,000	0	40,000
Total Disbursements	699,338	24,815	674,523	40,000	0	40,000
RECEIPTS OVER (UNDER) DISBURSEMENTS	(233,338)	262,240	495,578	114,000	155,851	41,851
CASH, JANUARY 1	233,338	233,338	0	77,487	77,487	0
CASH, DECEMBER 31	\$ 0	495,578	495,578	191,487	233,338	41,851
<u>RECORDER USER FEE FUND</u>						
RECEIPTS						
Charges for services	\$ 35,000	37,874	2,874	35,000	32,244	(2,756)
Interest	0	2,757	2,757	4,000	3,556	(444)
Total Receipts	35,000	40,631	5,631	39,000	35,800	(3,200)
DISBURSEMENTS						
Ex Officio Recorder of Deeds	50,650	48,064	2,586	37,387	40,532	(3,145)
Total Disbursements	50,650	48,064	2,586	37,387	40,532	(3,145)
RECEIPTS OVER (UNDER) DISBURSEMENTS	(15,650)	(7,433)	8,217	1,613	(4,732)	(6,345)
CASH, JANUARY 1	73,001	73,001	0	77,733	77,733	0
CASH, DECEMBER 31	\$ 57,351	65,568	8,217	79,346	73,001	(6,345)

Exhibit B

STONE COUNTY, MISSOURI
 COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH - BUDGET AND ACTUAL - VARIOUS FUNDS

	Year Ended December 31,					
	2000			1999		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>CHILDREN'S TRUST/ABUSE VICTIMS FUND</u>						
RECEIPTS						
Charges for services	\$ 3,200	2,018	(1,182)	3,000	3,092	92
Total Receipts	3,200	2,018	(1,182)	3,000	3,092	92
DISBURSEMENTS						
Abuse victims' services	3,202	0	3,202	3,120	3,210	(90)
Total Disbursements	3,202	0	3,202	3,120	3,210	(90)
RECEIPTS OVER (UNDER) DISBURSEMENTS	(2)	2,018	2,020	(120)	(118)	2
CASH, JANUARY 1	2	2	0	120	120	0
CASH, DECEMBER 31	\$ 0	2,020	2,020	0	2	2
<u>SEIZED PROPERTY FUND</u>						
RECEIPTS						
Intergovernmental	\$ 0	0	0	17,537	17,537	0
Interest	0	13	13	178	271	93
Total Receipts	0	13	13	17,715	17,808	93
DISBURSEMENTS						
Sheriff	3,130	2,841	289	18,523	15,475	3,048
Total Disbursements	3,130	2,841	289	18,523	15,475	3,048
RECEIPTS OVER (UNDER) DISBURSEMENTS	(3,130)	(2,828)	302	(808)	2,333	3,141
CASH, JANUARY 1	3,141	3,141	0	808	808	0
CASH, DECEMBER 31	\$ 11	313	302	0	3,141	3,141
<u>ELECTION SERVICES FUND</u>						
RECEIPTS						
Charges for services	2,000	2,154	154			
Total Receipts	2,000	2,154	154			
DISBURSEMENTS						
Election services	0	0	0			
Total Disbursements	0	0	0			
RECEIPTS OVER (UNDER) DISBURSEMENTS	2,000	2,154	154			
CASH, JANUARY 1	0	0	0			
CASH, DECEMBER 31	\$ 2,000	2,154	154			
<u>DARE FUND</u>						
RECEIPTS						
Other	5,000	11,100	6,100			
Total Receipts	5,000	11,100	6,100			
DISBURSEMENTS						
Sheriff	5,100	9,230	(4,130)			
Total Disbursements	5,100	9,230	(4,130)			
RECEIPTS OVER (UNDER) DISBURSEMENTS	(100)	1,870	1,970			
CASH, JANUARY 1	3,104	3,104	0			
CASH, DECEMBER 31	\$ 3,004	4,974	1,970			

Exhibit B

STONE COUNTY, MISSOURI
 COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH - BUDGET AND ACTUAL - VARIOUS FUNDS

	Year Ended December 31,					
	2000			1999		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>PROSECUTING ATTORNEY BAD CHECK FUND</u>						
RECEIPTS						
Charges for services	\$ 7,500	11,697	4,197			
Total Receipts	7,500	11,697	4,197			
DISBURSEMENTS						
Prosecuting Attorney	15,490	8,680	6,810			
Transfers out	0	890	(890)			
Total Disbursements	15,490	9,570	5,920			
RECEIPTS OVER (UNDER) DISBURSEMENTS	(7,990)	2,127	10,117			
CASH, JANUARY 1	8,172	8,172	0			
CASH, DECEMBER 31	\$ 182	10,299	10,117			
<u>PROSECUTING ATTORNEY DELINQUENT TAX FUND</u>						
RECEIPTS						
Intergovernmental	2,000	1,763	(237)			
Interest	0	5	5			
Total Receipts	2,000	1,768	(232)			
DISBURSEMENTS						
Other	2,500	0	2,500			
Total Disbursements	2,500	0	2,500			
RECEIPTS OVER (UNDER) DISBURSEMENTS	(500)	1,768	2,268			
CASH, JANUARY 1	754	754	0			
CASH, DECEMBER 31	\$ 254	2,522	2,268			
<u>LAW ENFORCEMENT CIVIL FEES FUND</u>						
RECEIPTS						
Charges for services	\$ 35,000	38,170	3,170			
Interest	0	566	566			
Transfers in	0	2,294	2,294			
Total Receipts	35,000	41,030	6,030			
DISBURSEMENTS						
Sheriff	35,000	39,269	(4,269)			
Transfers out	0	1,272	(1,272)			
Total Disbursements	35,000	40,541	(5,541)			
RECEIPTS OVER (UNDER) DISBURSEMENTS	0	489	489			
CASH, JANUARY 1	2,487	2,337	(150)			
CASH, DECEMBER 31	\$ 2,487	2,826	339			

Exhibit B

STONE COUNTY, MISSOURI
 COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH - BUDGET AND ACTUAL - VARIOUS FUNDS

	Year Ended December 31,					
	2000			1999		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>HEALTH CENTER FUND</u>						
RECEIPTS						
Property taxes	\$ 227,777	234,328	6,551	215,730	214,203	(1,527)
Intergovernmental	194,571	166,517	(28,054)	200,129	181,254	(18,875)
Charges for services	47,500	56,371	8,871	39,500	49,857	10,357
Interest	24,500	35,740	11,240	24,000	20,227	(3,773)
Other	17,500	13,276	(4,224)	19,000	11,082	(7,918)
Total Receipts	511,848	506,232	(5,616)	498,359	476,623	(21,736)
DISBURSEMENTS						
Salaries and fringe benefits	400,242	391,369	8,873	377,495	370,336	7,159
Office expenditures	60,700	43,483	17,217	63,000	51,894	11,106
Equipment	13,000	10,087	2,913	18,000	8,889	9,111
Mileage and training	12,500	10,862	1,638	15,000	11,779	3,221
Other	41,200	30,169	11,031	42,300	32,491	9,809
Total Disbursements	527,642	485,970	41,672	515,795	475,389	40,406
RECEIPTS OVER (UNDER) DISBURSEMENTS	(15,794)	20,262	36,056	(17,436)	1,234	18,670
CASH, JANUARY 1	534,835	536,363	1,528	534,608	535,129	521
CASH, DECEMBER 31	\$ 519,041	556,625	37,584	517,172	536,363	19,191
<u>SENIOR CITIZENS SERVICE FUND</u>						
RECEIPTS						
Property taxes	\$ 136,638	142,556	5,918	134,831	131,188	(3,643)
Intergovernmental	1,500	1,462	(38)	2,000	389	(1,611)
Interest	3,000	5,185	2,185	3,000	5,554	2,554
Other	600	446	(154)	0	451	451
Total Receipts	141,738	149,649	7,911	139,831	137,582	(2,249)
DISBURSEMENTS						
Contract services	180,869	128,939	51,930	205,288	163,677	41,611
Office expenditures	800	1,095	(295)	800	706	94
Mileage	800	589	211	800	684	116
Transportation	2,500	1,359	1,141	8,535	4,877	3,658
Total Disbursements	184,969	131,982	52,987	215,423	169,944	45,479
RECEIPTS OVER (UNDER) DISBURSEMENTS	(43,231)	17,667	60,898	(75,592)	(32,362)	43,230
CASH, JANUARY 1	93,230	93,230	0	125,592	125,592	0
CASH, DECEMBER 31	\$ 49,999	110,897	60,898	50,000	93,230	43,230

Exhibit B

STONE COUNTY, MISSOURI
 COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH - BUDGET AND ACTUAL - VARIOUS FUNDS

	Year Ended December 31,					
	2000			1999		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>EMERGENCY 911 FUND</u>						
RECEIPTS						
Sales taxes	\$ 790,000	807,672	17,672	588,200	644,959	56,759
Charges for services	0	9,250	9,250	0	0	0
Lease purchase proceeds	2,000	0	(2,000)	425,000	690,000	265,000
Interest	14,000	19,223	5,223	9,000	23,454	14,454
Other	12,000	948	(11,052)	2,000	277	(1,723)
Total Receipts	818,000	837,093	19,093	1,024,200	1,358,690	334,490
DISBURSEMENTS						
Salaries and fringe benefits	515,000	487,596	27,404	263,742	150,543	113,199
Office expenditures	13,894	13,243	651	12,700	10,926	1,774
Building and equipment	255,240	233,558	21,682	769,573	890,543	(120,970)
Mileage and training	31,500	24,884	6,616	30,000	4,643	25,357
Professional fees	50,000	39,606	10,394	2,500	10,869	(8,369)
Lease payments	108,903	108,903	0	0	36,661	(36,661)
Telephone	65,000	58,291	6,709	120,000	5,582	114,418
Other	82,335	63,679	18,656	54,000	39,355	14,645
Total Disbursements	1,121,872	1,029,760	92,112	1,252,515	1,149,122	103,393
RECEIPTS OVER (UNDER) DISBURSEMENTS	(303,872)	(192,667)	111,205	(228,315)	209,568	437,883
CASH, JANUARY 1	534,338	534,338	0	324,770	324,770	0
CASH, DECEMBER 31	\$ 230,466	341,671	111,205	96,455	534,338	437,883
<u>CIRCUIT CLERK INTEREST FUND</u>						
RECEIPTS						
Interest	8,000	6,616	(1,384)	2,800	17,033	14,233
Total Receipts	8,000	6,616	(1,384)	2,800	17,033	14,233
DISBURSEMENTS						
Circuit Clerk	8,500	5,369	3,131	2,000	9,324	(7,324)
Total Disbursements	8,500	5,369	3,131	2,000	9,324	(7,324)
RECEIPTS OVER (UNDER) DISBURSEMENTS	(500)	1,247	1,747	800	7,709	6,909
CASH, JANUARY 1	7,271	8,354	1,083	645	645	0
CASH, DECEMBER 31	\$ 6,771	9,601	2,830	1,445	8,354	6,909
<u>LAW LIBRARY FUND</u>						
RECEIPTS						
Charges for services	\$ 8,000	9,249	1,249	7,800	8,930	1,130
Interest	405	454	49	0	445	445
Total Receipts	8,405	9,703	1,298	7,800	9,375	1,575
DISBURSEMENTS						
Law Library	8,000	9,635	(1,635)	7,415	7,922	(507)
Total Disbursements	8,000	9,635	(1,635)	7,415	7,922	(507)
RECEIPTS OVER (UNDER) DISBURSEMENTS	405	68	(337)	385	1,453	1,068
CASH, JANUARY 1	15,084	15,534	450	14,081	14,081	0
CASH, DECEMBER 31	\$ 15,489	15,602	113	14,466	15,534	1,068

The accompanying Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

STONE COUNTY, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying special-purpose financial statements present the receipts, disbursements, and changes in cash of various funds of Stone County, Missouri, and comparisons of such information with the corresponding budgeted information for various funds of the county. The funds presented are established under statutory or administrative authority, and their operations are under the control of the County Commission, an elected county official, the Health Center Board, Senior Citizens Service Board, or the Emergency 911 Board. The General Revenue Fund is the county's general operating fund, accounting for all financial resources except those required to be accounted for in another fund. The other funds presented account for financial resources whose use is restricted for specified purposes.

B. Basis of Accounting

The financial statements are prepared on the cash basis of accounting; accordingly, amounts are recognized when received or disbursed in cash. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Budgets and Budgetary Practices

The County Commission and other applicable boards are responsible for the preparation and approval of budgets for various county funds in accordance with Sections 50.525 through 50.745, RSMo 2000, the county budget law. These budgets are adopted on the cash basis of accounting.

Although adoption of a formal budget is required by law, the county did not adopt formal budgets for the following funds:

<u>Fund</u>	<u>Years Ended December 31,</u>
DARE Fund	1999
Prosecuting Attorney Bad Check Fund	1999
Law Enforcement Civil Fees Fund	1999
Neighborhood Improvement District Fund	2000 and 1999
Community Development Block Grant Fund	2000
Associate Circuit Division Interest Fund	2000 and 1999
Probate Division Interest Fund	2000 and 1999

Warrants issued were in excess of budgeted amounts for the following funds:

<u>Fund</u>	<u>Years Ended December 31,</u>
General Revenue Fund	2000 and 1999
Law Enforcement Training Fund	2000
Special Road and Bridge Projects Fund	1999
Recorder User Fee Fund	1999
Children's Trust/Abuse Victims Fund	1999
DARE Fund	2000
Law Enforcement Civil Fees Fund	2000
Circuit Clerk Interest Fund	1999
Law Library Fund	2000 and 1999

Section 50.740, RSMo 2000, prohibits expenditures in excess of the approved budgets.

D. Published Financial Statements

Under Sections 50.800 and 50.810, RSMo 2000, the County Commission is responsible for preparing and publishing in a local newspaper a detailed annual financial statement for the county. The financial statement is required to show receipts or revenues, disbursements or expenditures, and beginning and ending balances for each fund.

However, the county's published financial statements did not include the following funds:

<u>Fund</u>	<u>Years Ended December 31,</u>
Emergency 911 Fund	2000 and 1999
Circuit Clerk Interest Fund	2000 and 1999
Law Library Fund	2000 and 1999
Community Development Block	

Grant Fund	2000
Associate Circuit Division Interest Fund	2000 and 1999
Probate Division Interest	2000 and 1999

However, for the Neighborhood Improvement Districts, the county's published financial statements for the years ended December 31, 2000, included only those amounts that passed through the County Treasurer.

2. Cash

Section 110.270, RSMo 2000, based on Article IV, Section 15, Missouri Constitution, authorizes counties to place their funds, either outright or by repurchase agreement, in U.S. Treasury and agency obligations. In addition, Section 30.950, RSMo 2000, requires political subdivisions with authority to invest in instruments other than depository accounts at financial institutions to adopt a written investment policy. Among other things, the policy is to commit a political subdivision to the principles of safety, liquidity, and yield (in that order) when managing public funds and to prohibit purchase of derivatives (either directly or through repurchase agreements), use of leveraging (through either reverse repurchase agreements or other methods), and use of public funds for speculation. The county has not adopted such a policy.

In accordance with Statement No. 3 of the Governmental Accounting Standards Board, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*, disclosures are provided below regarding the risk of potential loss of cash deposits. For the purposes of these disclosures, deposits with financial institutions are demand, time, and savings accounts, including certificates of deposit and negotiable order of withdrawal accounts, in banks, savings institutions, and credit unions.

The county's deposits at December 31, 2000 and 1999, were entirely covered by federal depository insurance or by collateral securities held by the county's custodial bank in the county's name.

The deposits of the Health Center Board and Senior Citizens Service Board at December 31, 2000 and 1999, were entirely covered by federal depository insurance or by collateral securities held by the custodial banks in the name of the respective board.

The Emergency 911 Board's deposits at December 31, 2000 were entirely covered by federal depository insurance or by collateral securities held by the custodial banks in the name of the board.

Of the Emergency 911 Board's bank balance at December 31, 1999, \$624,163 was covered by federal depository insurance or by collateral securities held by the Emergency 911 Board's custodial bank in the Emergency 911 Board's name, and \$3,042 was uninsured and under collateralized.

Furthermore, because of significantly higher bank balances at certain times during the year, the amounts of uninsured and uncollateralized balances for the Emergency 911 Board were substantially higher at those times than such amounts at year-end.

To protect the safety of county deposits, Section 110.020, RSMo 2000, requires depositaries to pledge collateral securities to secure county deposits not insured by the Federal Deposit Insurance Corporation.

3. Subsequent Event

In 2001 lawsuits were filed regarding the Black Oak Mountain Resort Neighborhood Improvement District. Several issues, including the quality of the utility system and the computation of the annual assessments are pending. The potential liability to the county cannot be determined at this time.

Schedule

STONE COUNTY, MISSOURI
SCHEDULE OF FINDINGS
YEARS ENDED DECEMBER 31, 2000 AND 1999

This schedule includes the audit findings that *Government Auditing Standards* requires to be reported for an audit of financial statements.

00-1.	Omission of Budgetary Information
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The county does not have adequate procedures to ensure budgets are prepared for all county funds, and as a result, budgets were not prepared for various county funds for the two years ended December 31, 2000. The lack of budgetary information for these funds, especially the Neighborhood Improvement Districts (NID) Fund, is a significant omission from the county's financial statements. The County Commission responded in the prior audit that they would require each entity handling NID funds to annually provide a budget and financial statement for each NID; however, no budgets were prepared. Considering the lack of adequate control over the use of NID funds by the County Commission noted in finding #00-2, the preparation and periodic monitoring of the NID funds through budgets is necessary.

Receipts which were not budgeted totaled more than \$6.3 million and \$5.3 million in 2000 and 1999, respectively. Disbursements which were not budgeted totaled more than \$4.3 million and \$7.5 million for 2000 and 1999, respectively.

Chapter 50, RSMo 2000, requires preparation of annual budgets for all funds to present a complete financial plan for the ensuing year. By preparing or obtaining budgets for all county funds, the County Commission and other county officials would be able to more effectively evaluate all county financial resources.

A similar condition was also noted in our prior report.

WE RECOMMEND the County Commission and other applicable officials ensure budgets are prepared for all county funds as required by state law.

AUDITEES RESPONSE

The County Clerk as the County's ex officio budget officer, has no responsibility to prepare a NID budget, to process a NID's requisitions, or to issue or process warrants for payment under a requisition.

Ever sensitive to public perceptions, the County Commission is loathe to include NID funds in its budget and financial statement, since it will appear to the public that the County's budget is larger than it truly is.

The County Commission agrees that the public should be able to inspect the budget and finances of each NID. The County Commission agrees that an annual budget should be prepared by its governing body of each NID, and will do so.

00-2.

Neighborhood Improvement Districts

The Stone County Commission established three Neighborhood Improvement Districts (NIDs): Black Oak, Edgewater, and Stonebridge. The NIDs were established to develop roads and construct water and sewage systems in the districts. Our review identified a lack of control by the County Commission resulting in questionable transactions, possible conflicts of interest, a lack of bidding, and improper withholdings from assessments.

Two NID's, the Black Oak Mountain Resort and the Edgewater Village had special obligation, special assessment bonds issued by the County Commission for \$2,973,000 and \$2,225,000 in June 2000 and December 2000, respectively to retire temporary construction notes. Our review of these two projects revealed numerous concerns with regard to the county's planning and monitoring process and record keeping procedures.

- A. As the County Commission did not maintain adequate control of the Black Oak Mountain Resort NID project, numerous problems such as potential conflicts of interest and improperly documented transactions existed.
1. Two individuals, Vernon Stump and Joe Schomaker were involved in managing the Black Oak Mountain Resort project and approving transactions without proper supervision by the County Commission. Several of the companies receiving payment from NID funds appear to be related and have the appearance of a conflict of interest as follows:
 - S.V. Holding, Inc. is a nonprofit corporation that owned and operated the utility company within the NID. Joe Schomaker and Sally Stump are officers of the corporation.
 - Centrust Capital Corporation was paid \$153,272 and Northern Investment Group, Inc. was paid \$121,199 from NID funds. The position of these two companies is unclear. Requisitions provided by the county indicate they acted as financial advisors, construction managers, utility managers, as well as project managers. Vernon Stump was a corporate officer of both of these corporations.
 - Ozark Shores Water Company was paid \$20,646 as utility inspector of the project. Vernon Stump was on the Board of Directors of this corporation.

- Trenchless Services, Inc submitted a bill to the NID for \$136,500 for road boaring on the NID project. Vernon Stump and Joe Schomaker are officers of this corporation. According to documentation provided by the county, \$136,500 was manually added to the total of one of the utility system contractor's invoice and paid to the contractor. The County Commission indicated that the contractor subsequently paid the \$136,500 to Trenchless Services.

These relationships impair the independence of those in a position to influence the distribution and use of NID funds, reduce the effectiveness of controls and decision making, and harm public confidence. In addition, the NID Agreement states, "S. V. Holding shall not be permitted to bid on or perform any of the actual construction on the Public Improvements while acting as the Construction Managers nor shall any construction firm which controls, is controlled by, or shares common ownership or control with S. V. Holding be allowed to bid on or perform work on such Public Improvements."

2. Our review of transactions involving the companies identified in part A1. as having potential conflicts of interest revealed several concerns. There was no written contract with Centrust Capital Corporation or Northern Investment Group and invoices submitted for payment by these two corporations were not adequately detailed. Both companies received a fee of five percent of project costs for their services; however, some instances were noted where their own fee was added to the project cost to compute the five percent fee, resulting in excess billings. In addition, the invoice submitted by Trenchless Services provided no detail on the services performed.

Written agreements are necessary to clearly outline the expectations and responsibilities of each party. Without entering into written agreements or requiring adequately detailed documentation of expenditures, the County Commission cannot ensure the validity and propriety of the expenditures.

3. In 1995 bids were received for road improvements within the NID; however, none of the bids were accepted, as the actual work was not performed at that time. In 1998 the county contacted the company that was awarded the county bid for paving roads and received a proposal of \$240,700. However, \$445,844 was paid to this company. There were no written change orders or other documentation to support the additional amount paid. In addition, invoices were not of sufficient detail. Most invoices simply indicated "value of work complete to date". Details such as the specific roads paved, and the materials used (chip and seal or asphalt) were not provided on the invoices. As a result, it is questionable whether or not the NID received the services that were to be provided.

Included in the \$445,844 was approximately \$32,000 for paving of a parking lot and entrance road to an amphitheatre. The paving was on private property and was to be reimbursed to the NID by the amphitheatre owner; however, the NID received only \$5,000 from the owner. The County Commission indicated that the balance was paid to the utility company within the NID, since the NID owed money to the utility company. The county did not have supporting documentation to substantiate that this money was paid to the utility company, or that the payment was applied to reduce an amount owed by the utility company. However, in March 2001 the road improvement contractor paid \$27,000 to the NID. The County Commission does not have any documentation to indicate what these funds represent and as a result, the County Commission is uncertain if the NID was properly reimbursed.

Further, there was no formal plan detailing the road construction to be performed. While the Development and Joint Cooperation Agreement for the NID indicated that the project included overlaying the existing streets with asphalt, many of the roads were paved with chip and seal. In addition, numerous new utility system manholes in the NID were covered with asphalt or chip and seal when the road work was performed. These manholes will have to be uncovered, which will represent an additional cost to the NID. The County Commission verbally indicated they originally planned to do a combination of asphalt and chip and seal, with the amount of asphalt depending on the money left over after the utility system was complete.

The county's overall control and documentation related to the road improvements was inadequate. To properly control a project such as this, it is important that detailed plans are prepared and followed, bids are solicited, and expenditures are supported by adequate documentation. In addition, the County Commission should ensure the NID is reimbursed for the paving of the amphitheatre property and review the situation regarding the utility system manholes to ensure appropriate measures are taken to remedy the problem.

4. Adequate supporting documentation was not maintained for some additional expenditures. There were several instances where there was no documentation or insufficient detail to support the expenditure. For example no invoice was retained for \$79,270 paid on a water tower.

In addition, duplicate payments appear to have been made on more than one occasion. For example, the utility system contractor billed and was paid \$11,200 in both February and March 1999 for four grinder pumps. The March 1999 contractor invoice was accompanied by supporting documentation from the vendor supplying the grinder pumps; however, the February 1999 contractor invoice did not contain any documentation to support the \$11,200 charge. According to the engineer only four grinder

pumps were installed in the utility system. Additionally, \$1,131 for base rock appears to also have been paid to the utility system contractor on two separate billings.

Without obtaining and properly reviewing adequate supporting documentation, the County Commission cannot determine the validity and propriety of the expenditures, and ensure that duplicate payments are not made.

5. In December 1998 a bid of \$1,000,000 was accepted for the construction of the sewer system, and a change order in January 1999 reduced the total contract price to \$991,950. However, approximately \$1,019,000 was paid to the utility system contractor. While the County Commission indicated that there were other change orders, nothing was produced or made available.

Complete documentation regarding the reasons for change orders, change order copies themselves, and any other relevant information should be retained by the county in order to minimize possible misunderstandings and provide adequate support for the related expenditures.

The county's overall planning, monitoring, and record keeping procedures for the Black Oak Mountain Resort NID was inadequate. As a result, numerous residents of the NID have serious concerns with the manner in which funds were expended and the quality of the services provided. Of the more than \$2.9 million project only approximately 75 percent was spent on actual construction costs. Litigation is currently pending on the Black Oak Mountain Resort NID involving several issues, such as the quality of the utility system and the computation of the annual assessments.

- B. The County Commission did not approve expenditures of the Edgewater Village NID as well as some bids for construction of the NID.

1. The County Commission did not approve or review documentation of expenditures totaling approximately \$1,656,500. All requisitions were approved solely by the developer for payment. The County Commission recently requested documentation of all expenditures; however, since the project is complete, this review will be performed too late to prevent the possibility of inappropriate payments.

Good business practices require all disbursements to be closely scrutinized and properly authorized prior to the disbursement being made. The County Commission's failure to properly review and approve all invoices, requisitions, and other supporting documentation increases the possibility of inappropriate disbursements occurring.

2. The County Commission did not review some of the bids for work performed by a construction company owned by the developer. In addition to management fees paid to the developer, approximately \$16,800 was paid to the developer's construction company. While the County Commission indicated that the developer's construction company was required to submit a sealed bid like other companies, the County Commission did not review or approve bids to ensure that this procedure was followed. As noted in Part B.1., the developer was the only individual approving expenditures. Further, documentation supporting the \$16,800 paid to the construction company owned by the developer was not adequately detailed. To avoid an appearance of a conflict of interest, the County Commission should have participated in the bid process and reviewed and approved documentation of all expenditures.
- C. The county began collecting the special assessments for the Stonebridge and Black Oak NIDs in 1997 and 2000; respectively. The County Commission authorized the County Collector to withhold one percent assessment fund monies from the special assessment collections. As a result, since 1997, the County Collector has withheld approximately \$21,300 and \$4,000 from the special assessment collections of Stonebridge and Black Oak for distribution to the Assessment Fund.

We could find no express statutory authority for these withholdings. In *Zahner v. City of Perryville*, 813 S.W.2d 855, 859 (Mo. banc 1991), the Missouri Supreme Court ruled that special assessments are not taxes. Therefore, it appears there is no authority for the county to make assessment fund withholdings from the special assessments. While costs actually incurred by the county can be charged in the proportionate assessments on property benefited, the county provided no documentation of out-of-pocket costs actually incurred from the Assessment Fund related to the projects. Moreover, it does not appear reasonable to continue to charge undocumented "assessment" costs annually over the life of the financing for assessments that are required to be fixed after construction is complete.

A similar condition was noted in our prior report.

- D. As noted in the prior audit, the county received administrative fees totaling \$17,000 and \$12,500 in 1998 and 1997, respectively from the Edgewater and Black Oak NIDs. The administrative costs represent seven-tenths of one percent of actual construction and estimated bond costs; and are not based on actual administrative costs incurred by the county. Although costs for work done for services performed by the county in the administration and supervision of the improvement are allowed by Section 67.453, RSMo 2000, these costs should be based on actual work performed and should be documented.

State law does allow the county to recoup administrative costs related to the NIDs. However, basing the recoupment solely on a percentage of actual construction and

estimated bond costs provides the county no assurance that the amounts received from the NIDs approximate the actual administrative costs incurred by the county. The county does not have any written documentation to support administrative cost expenditures. The County Commission should review the administrative costs and collect additional amounts from the landowners or refund any excess amounts received, as applicable.

A similar condition was noted in our prior report.

WE RECOMMEND the County Commission:

- A1. Review the related party transactions for propriety, and in the future, avoid transactions that represent actual conflicts of interest or the appearance of conflicts of interest, and ensure steps are taken to eliminate conflicts.
 2. Enter into written agreements and require detailed invoices to support services performed.
 3. Obtain detailed plans, solicit bids, and maintain adequate supporting documentation of expenditures for all future projects. In addition, ensure reimbursement is received for paving the entrance road and parking lot of the amphitheatre, and review the situation regarding the utility system manholes to ensure appropriate measures are taken to remedy the problem.
 4. Ensure adequate supporting documentation is obtained and reviewed for all expenditures. In addition, review the duplicate payments made for the grinder pumps and base rock and seek reimbursement.
 5. Ensure change orders are prepared, signed and approved by all parties prior to the initiation of the related work, and retained in the county's files. In addition, research the amount paid to the utility system contractor to ascertain if approved change orders make up the excess of the amount paid over the contract amount. If change orders do not make up the difference, seek reimbursement of the overpayment.
- B.1. Review and approve the expenditure of NID funds prior to the disbursements being made.
 2. Review transactions involving the construction company owned by the developer to ensure bids were obtained. In addition, consult with legal council regarding the possible conflict of interest.

- C. Discontinue withholding assessment funding from special assessment collections and consider refunding those amounts already withheld. If actual incremental assessment costs were incurred related to applicable NID projects, it may be appropriate to include those costs in the special assessments apportioned to the landowners.
- D. Document the administrative costs incurred by the county and charged to the NIDs. Any additional unreimbursed costs should be collected from the landowners. Any excess amounts collected should be refunded to landowners who have already paid their assessments, and assessments to landowners paying over the twenty-year period should be adjusted to reflect actual costs.

AUDITEES RESPONSE

Missouri statutes provide that when a county forms a Neighborhood Improvement District, the County Commission acts as the governing body of the district. The County Commission's role is one of its legislative functions, similar to that of the Missouri General Assembly. In a major public improvement project, the County Commission's role is to provide appropriate funding and oversight mechanisms, not to design, construct, or supervise.

It is a well-founded principle that governmental officers and entities may delegate their responsibilities to others. When the United States government builds a military base in a remote region, it is not superintended by the Congress, the Secretary of Defense, or even the Joint Chiefs of Staff. Rather, the government relies on employees and independent contractors to properly perform the work, and then relies on others to inspect and report on the work and materials.

Even the State Auditor does not perform all of her constitutional and statutory duties herself. She delegates these responsibilities to her deputies, assistants, and staff members, and even contracts with independent outside auditing firms to discharge her duties.

The County Commission did set up adequate safeguards in its contracts with the project's two developers, S. V. Holding, Inc. (the owner and operator of the sanitary sewer collection and treatment system in the Swiss Villa subdivision) and Quannah Corporation (the owner of record of two-thirds by area of all real property located within the proposed NID), ("the Developers"). Apparently, the Developers authorized two representatives to act in their behalf for day-to-day operations, Schomaker and Stump.

Since the County does not employ architects, engineers, or staff capable of constructing major public improvements such as sewer system construction, water system construction, and road preparation and paving, the County Commission required that contracts with others provide those services.

The Developers were required to direct and oversee design and construction and requisitions for funds. The County Commission thereafter ensured that the Developers' independent professional engineer would be obligated to the County Commission as an additional 'employer', and that the engineer would provide full-time inspection and frequent reports. The County Commission also

ensured that the Developers had employed a project manager who had come highly recommended by the Department of Natural Resources.

The County Commission held frequent meetings concerning the NID project, and required and relied upon consultations, reports and certifications from the Developers, the engineer, and the project manager at all stages of the project.

No requisition for funds was approved by the Commission unless it had first been certified by the contractor requesting payment, both developers, and the engineer.

The County Commission had a right to rely on the Developers, the project manager, and the engineer, and it did so.

The County Commission did ensure competitive bidding as is required by statute.

Substandard materials, defective design or installation, inappropriateness of costs requisitioned for payment, and conflicts of interest should have been discovered by the project developers, the engineer, and the project manager.

If those to whom responsibility is legally delegated are guilty of misfeasance or malfeasance, there is a legal remedy.

A. *Control of the project:*

There is no way the County Commission could have foreseen that the Developers, project manager, engineer, and contractors might not perform their duties properly.

The County Commission did not retain Centrust Capital Corporation or Northern Investment Group. They were retained by the Developers before the County Commission was requested to form the NID.

The County Commission did not retain Ozark Shores Water Company. It was retained by the Developers before the County Commission was requested to form the NID, and the services for which it was paid were rendered in determining the extent of the proposed project and the amount of financing necessary to plan and construct the public improvements.

Trenchless Services was O.K. Utilities' subcontractor. The County Commission was not aware that Stump and Schomaker were principals of Trenchless until after processing the requisition to which Trenchless' invoice was attached.

The Commission agrees that these relationships impaired the 'checks and balances' the Commission put in place, and allowed those in positions of trust to influence the distribution of NID funds and reduce the effectiveness of controls and decision making. However, the Commission could not have foreseen those conflicts of interest, nor could the Commission have foreseen that S. V. Holding and Quannah would violate their contracts with the County.

The County Commission is concerned with the apparent problems and conflicts of interest mentioned by the State Auditor, and has filed a lawsuit against S. V. Holding, Inc. and Quannah Corporation.

Conflicts in Interest:

The County Commission did not retain Centrust Capital Corporation or Northern Investment Group. They were retained by the Developers before the County Commission was requested to form the NID.

The County Commission did not retain Ozark Shores Water Company. It was retained by the Developers before the County Commission was requested to form the NID, and the services for which it was paid were rendered in determining the extent of the proposed project and the amount of financing necessary to plan and construct the public improvements.

Trenchless Services was O.K. Utilities' subcontractor. The County Commission was not aware that Stump and Schomaker were principals of Trenchless until after processing the requisition to which Trenchless' invoice was attached.

The County relied upon its bond counsel concerning the appropriateness of payments to Centrust Capital Corporation and Northern Investment Group.

If the audit has revealed miscalculation of the fees for Centrust Capital Corporation and Northern Investment Group, the County will take appropriate steps to recover the excess fees paid.

The County Commission is concerned with the apparent problems and conflicts of interest mentioned by the State Auditor, and has filed a lawsuit against S. V. Holding, Inc. and Quannah Corporation.

Roads:

Because the water and sewer construction project would likely damage or destroy part of the existing roads and because the engineering plans and specifications would likely require that the developer restore damaged roads, the County Commission anticipated that it would be necessary to include at least a limited road restoration and improvement project.

The Developers and the County Commission decided at an early stage that if sufficient funds were available toward the end of the project, all of the roads in the NID would be paved with asphalt surface.

The County Commission's order dated March 18, 1997 provided that the road improvements would consist of the Main Road improvements commencing at Missouri Route H and extending into the developed area of Swiss Villa subdivision, including all of the streets within the subdivision.

The main road leading to the subdivision, and all of the main streets of the subdivision, were overlaid with new asphalt surface. All of the remaining streets of the subdivision were improved and resurfaced with 'chip and seal' material.

The Developer Agreement reflected the Developers' and the County Commission's hopes to be able to afford providing asphalt surface to all roads in the NID. However, at each public hearing representatives of the Developers and the County Commission announced that rather than increase the ultimate cost of the project, they would if necessary hold down costs by reducing the scope of the road project.

The County Commission balanced the need for road improvements against the ultimate cost of the project, which the County Commission believed would be quite expensive even if inflation and necessary change orders did not increase the project's costs.

At an early planning stage of the project, the Developers and the County Commission asked the project engineer to estimate the cost for preparing full plans and specifications for the road improvement portion of the project.

The project engineer advised the Developers and the County Commission that it would cost \$25,000.00 to prepare engineering plans and specifications for the road improvement portion of the project.

The Developers and the County Commission believed that, to surface all roads in the NID with asphalt paving in accordance with engineer-prepared plans and specifications, would cost substantially more than the NID project could afford. In addition, the County Commission believed that even a 'firm bid' would include mobilization expenses, and would be open-ended because of a rock clause; a base removal and/or replacement clause; because applied pavement depth often varies drastically from an original estimate; and because of variables due to ditching, culvert, drainage, and the difficulties encountered with road construction over gray and yellow clay that prevails in the Swiss Villa area.

The Developers and the County Commission decided to construct road improvements in such scope and magnitude as were possible with the funds remaining after being satisfied that the sewer and water improvements could be completed.

Toward the end of the project, the Developers and the County Commission decided to asphalt-surface some of the roads in the NID and provide chip-and-seal surface to others.

The road improvement project's actual cost was derivative of the number of tons of asphalt used, the amount of 'chip and seal' surfacing used, the cost of excavating and constructing the base, the cost of 'wedging' the road base before the top surface could be installed, and the cost for ditching, culverts, and drainage.

After they were resurfaced, some of the roads in the NID were damaged when the roadway was 'dug up' for inspection of underlying water and sewer pipes, for reconstruction, and for repairs. The County Commission intends that those roads be satisfactorily repaired.

Much ado has been made of a complaint that 'the original estimate' for asphalt-surfacing all roads in the NID was \$240,700.00 but that \$445,843.77 was actually spent and yet not all roads were asphalt-surfaced. This complaint is deceptive for the following reasons:

- a. 'the original estimate' referred to is that dated December 2, 1998, from Leo Journagan Construction Co., Inc. ("Journagan") for brooming, tack, and overlay, and which estimated 10,000 tons of asphalt at the County's existing fixed-rate bid of \$24.07 per ton, resulting in an extension of \$240,700. but which did not include costs for excavation and soft subgrade work, ditching, installing culverts, grading road shoulders or adding base rock as needed;*
- b. the condition of the old road necessitated a considerable amount of excavation of gray and yellow clay, replacement of the clay with stable material, grading road shoulders, adding base rock, and wedging the road base;*
- c. 'the original estimate' was not a 'firm bid' from a paving contractor;*
- d. preparing full engineering plans and specifications from which a 'firm bid' could be solicited, would have added \$25,000 to the project cost.*
- e. a paving contractor's 'firm bid' would still be open-ended because it would have included mobilization expenses that were avoided by 'piggybacking' the paving portion of the improvements upon the County's existing paving bids;*
- f. a paving contractor's 'firm bid' would have still been open-ended, because it would have included a standard rock clause; a standard base removal and/or base replacement clause; and provide for variable costs resulting from ditching, culverts, drainage modifications; and the difficulties encountered with road construction over yellow clay that prevails in the Swiss Villa area;*
- g. a paving contractor's 'firm bid' would still have been open-ended, since it would provide for variable costs resulting from pavement depth (which often varies actual cost drastically from an original estimate) and for payment for the number of tons of asphalt actually used;*
- h. If the NID had constructed roads pursuant to engineer-prepared plans and specifications and a 'firm bid', the road improvement project would have required more than the amounts actually paid.*

The Developers and the County Commission decided to construct the road improvements in the NID by the same method and under the same bids that the Stone County Highway Commission constructs road improvements in other areas of the County.

The Stone County Highway Commission appropriated and expended \$37,500 to 'co-op' part of the cost incurred to resurface the first mile of the access road leading to the NID, and adopted the first mile of road into the County's highway system. This is a great benefit to property owners in the NID.

The reconstruction of the main road required that an alternate temporary route be used.

Without consulting the County Commission, the Developers determined that, instead of building and maintaining an alternate temporary roadway:

- a. it was in the property owners' best interest to improve the Quanah road so it could be available as an alternate route in the future if repairs or emergencies necessitated an alternate route, and*
- b. the best alternate route available was over an existing road on Quanah's property ("the amphitheater road") that was not within the NID boundaries.*

Without the knowledge of the County Commission, the Developers caused the amphitheater road to be improved and asphalt-surfaced, and used it during reconstruction of the main road.

After learning that the Developers had expended NID funds on the amphitheater road outside the NID boundaries, the County Commission required that Journagan calculate the cost that the NID would have had to pay to build and maintain an alternate route other than the amphitheater road.

Journagan calculated the cost of building and maintaining an alternate route at approximately \$6,000.

The County Commission thereafter allotted \$6,000 of NID funds for the improvement and use of the amphitheater road as an alternate route during the main road reconstruction project, and required that Quanah pay Journagan for the rest of the cost of improving and paving the amphitheater road.

Amount of interest and financing charges paid:

After the NID was formed, due to the length of the construction project, the temporary notes had to be "rolled over". The first issue of temporary notes was made on September 3, 1997. The project went to permanent financing on June 30, 2000, and there was a rush to get the paperwork finalized by that date to avoid another "rollover".

The actual interest and "soft costs of issuance" for the project were (approximately):

Interest on temporary notes	\$323,726
Cost of issuance, discounts, underwriting fees	<u>442,252</u>
	\$765,978

If the project could have gone to permanent financing without "rollovers", the soft interest and costs of issuance would have been (approximately):

Interest on temporary notes	\$113,525
Cost of issuance, discounts, underwriting fees	<u>208,000</u>
	\$321,525

The costs attributable to passage of time and length of the project is:

Interest on temporary notes	\$210,201
Cost of issuance, discounts, underwriting fees	<u>234,252</u>
	\$444,453

B. Edgewater Village NID

1. *Apparently, bond counsel omitted from the specimen requisition form the customary provision for approval by the County Commission as governing body of the NID. Thus, requisitions for payment were not submitted to the County Commission for approval.*

After learning that the trustee had disbursed NID funds without the County Commission's approval, the County Commission held a hearing with the developer and its attorney, bond counsel, and the trustee and its attorney. The County Commission will hold further hearings to determine whether all expenditures made by the trustee were proper.

2. *The County Commission will hold further hearings to determine whether management fees paid to the developer were appropriate.*

C. Assessment fund monies withheld from special assessment collections

The County Commission received advice from its bond counsel that the one percent Assessment Fund fee could be collected on NID revenues, and the County Commission relied upon the expectation in collecting those assessment fees and in setting the County's administrative fee, discussed below.

The Assessor's and Collector's expenses have been paid in part from the County Assessment Fund. The County Commission and the County Assessor believe that the one percent fee is reasonable and is supported by the County's actual ongoing costs.

The County Assessor and Collector have regular and ongoing expenses in assessing and collecting the special assessments, and in administering the NID special assessment districts. The services provided to the NIDs by the Assessor and Collector are:

- (a) Maintaining records of property transfers within each NID. This is important since some property owners make “up front” lump-sum payment of special assessments, and some property owners have elected to make annual payments over a 20-year period.*
- (b) Maintaining a special NID file to track assessments and payments, allowing the County to make a special “tax book” for each NID that shows payments and delinquencies, necessitating new data input and calculations each year.*
- (c) Paying for computer software programming to set up the computer to generate the special assessments, and to fine-tune and monitor the computer system in this regard. This cost approximately \$4,500 in 1999 for Stonebridge. These are not one-time costs, but are recurring and ongoing expenses to the Assessor and Collector. For example, the County is now acquiring a new tax assessment and collection computer system and program that is significantly more expensive (and efficient) than its predecessor. The County Commission believes that the NIDs’ respective costs should be recouped over the twenty-year life of the NIDs’ special assessments.*

Unless the one percent assessment fee is collected, the County’s taxpayers will bear part of the cost of the NIDs. The County Commission does not believe the County’s taxpayers should be required to do so.

In many instances, special assessments are calculated as ad valorem levies either of the County or by a taxing authority within the County. Under the method of assessments for the County’s NIDs, the amount of each parcel’s assessments does not vary depending upon the assessment valuation of the parcel. Thus, the assessments are not true ad valorem taxes. However, since the method of collecting the special assessments is done in the same tax bill as ad valorem tax collections, since the assessments are billed and collected in the same manner as ad valorem taxes, and since the amount of assessment per NID parcel varies from year to year, the county’s bond counsel and the County Commission believe that the method set out in Section 137.720 (percentage of ad valorem property tax collection to be deducted for deposit in county assessment fund) should apply to the special assessments.

The County Commission believes that the Collector of Revenue is authorized and perhaps even mandated, to withhold the one percent assessment fund monies on these assessments. The County Commission fears that, if the Collector of Revenue fails to collect the one percent fee under Section 137.720, the Collector may be derelict in her duties and/or liable on her official bond.

D. County's Administrative Fee

In each NID, the County received administrative fees of seven hundredths of one percent. These amounts are modest and justified. A review of the County's administrative fees that are or will be generated by the three respective NIDs indicates that the County's costs are not fully reimbursed by the administrative fee.

In no year thus far has the County's estimated personnel costs, expenses, and legal services attributable to the NIDs been as low as \$3,000. Even with Stonebridge and Black Oak Mountain Resort NIDs in permanent financing, the County Commission, the County Clerk, and County Counselor have frequent and ongoing responsibilities to deal with its status and relationship with the County.

Even after reviewing the State Auditor's recommendation and comment, the County Commission believes that it has acted reasonably in predicting the County's administrative costs, and in recouping them from the NIDs.

The County Commission believes that the administrative work performed by the County for the NIDs, and the employees, equipment and supplies provided by the County to the NIDs, should not be borne by the taxpayers from the County's general revenue fund. Upon inquiry, the County Commission was advised by its bond counsel that it was entitled to an administration fee from each NID.

Considering that the NID administrative duties will continue for up to twenty-years for each NID, the County Commission followed the suggestion of its bond counsel and inquired about the appropriate range for such fees. Thereafter, the County Commission determined that seventh-tenths of one percent of actual construction and estimated bond costs was a reasonable amount and would compensate the County for discharging the administrative duties attendant to the NIDs.

Section 67.453 does not require that the costs and actual work performed be tracked, recorded, reported, and allocated. The County Commission believes that it has complied with the requirements of the statute:

Section 67.453 (3): *“Cost”, all costs incurred in connection with an improvement, including, but not limited to, costs incurred for the preparation of preliminary reports, the preparation of plans and specifications, the preparation and publication of notices of hearings, resolutions, ordinances and other proceedings, fees and expenses of consultants, interest accrued on borrowed money during the period of construction, underwriting costs and other costs incurred in connection with the issuance of bonds or notes, establishment of reasonable required reserve funds for bond or notes, the cost of land, materials, labor and other lawful expenses incurred in planning, acquiring and doing any improvement, reasonable construction contingencies, and work done or services performed by the city or county in the administration and supervision of the improvement.*

Having the ability to track, record, report, and allocate the actual costs and actual work performed would be ideal. However, the County Commission believes that the cost of instituting and maintaining such an accounting system would be an inefficient and improvident use of County resources, since little efficiency would be gained in the County's day-to-day operations. The County Commission believes it would be imprudent to institute such a system for this purpose.

AUDITOR'S COMMENTS

- A&B. It is disappointing that the County Commission is not taking any responsibility for these problems. The county is ultimately responsible for the repayment of the more than \$5 million in limited general obligation bonds. It is unclear why officials took such a "hands off" approach to these NIDS, as such officials still have a fiduciary responsibility to properly monitor the NID funds.
- D. The County Commissioner's response indicates, "the county's costs are not fully reimbursed by the administrative fee." Considering the county's lack of monitoring of the NIDs, it is possible that future legal costs may be incurred. However, without documentation of what costs the county has incurred, it is impossible to determine if amounts received from the NIDs approximates the actual administrative costs incurred by the county.

00-3.

Emergency 911 Building

The Stone County Emergency 911 Board expended approximately \$400,000 to construct a building to house 911 administrative offices and dispatchers. The 911 Board contracted with a general contractor in September 1998 for the project. The board's lack of oversight and approval of expenditures resulted in a lack of bidding and questionable transactions.

The 911 Board did not effectively monitor the general contractor and ensure bids were competitively solicited. According to the written agreement, the general contractor was paid \$25,000 and was responsible for overseeing the project, obtaining bids on the various phases of construction, and submitting them to the 911 Board for approval. The agreement also included a clause that allowed the general contractor to perform any portion of the work on the same terms as the lowest and best bid received. The general contractor performed work related to the electrical, carpentry, roofing, site prep, trenching and footing, fill dirt, finish and clean-up, and water main portions of the project and was paid approximately \$160,000. Bids were not obtained or documented for several of the project areas performed by the general contractor, and in instances where bids were obtained, only one proposal was documented for the work performed.

Adequate supporting documentation was not maintained for some expenditures. Of the \$160,000 paid to the general contractor, invoices totaling more than \$88,000 were not adequately detailed to document the work performed. Additionally, invoices totaling \$52,000 paid to other vendors were not sufficiently detailed.

The manner in which the procurement of this project was handled prevented the solicitation of competitive bids by allowing the general contractor to both solicit bids and elect to perform the work himself on the terms of the lowest bid. As a result, the 911 board did not assure itself that it received the lowest and best price on the completed project. In addition, by allowing the general contractor to subcontract to himself, quality control was diminished as he was responsible for overseeing his own work. Furthermore, by not obtaining adequate documentation of all construction expenditures, it is not clear if the 911 Board received the services for which they were billed.

It should be noted that the work performed by the general contractor was not completed to the satisfaction of the 911 board, and the board has not paid the general contractor for some of the construction work performed. This resulted in legal action brought against the 911 Board by the general contractor, and a counterclaim filed by the 911 Board against the general contractor. Had the procurement process been handled differently, these difficulties may have been avoided.

WE RECOMMEND the Emergency 911 Board ensure all future construction projects are competitively bid, adequate documentation is obtained for all expenditures, and the work is properly monitored.

AUDITEES RESPONSE

The Stone County Emergency Services (E-9-1-1) Board concurs with the audit review.

Follow-Up on Prior Audit Findings

STONE COUNTY, MISSOURI
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by Stone County, Missouri, on a certain finding in our prior audit report issued for the two years ended December 31, 1998. The finding is the one that *Government Auditing Standards* requires to be reported for an audit of financial statements.

98-1. Omission of Budgetary Information

Budgets were not prepared for various county funds.

Recommendation:

The County Commission and other applicable officials and boards ensure budgets are prepared for all county funds as required by state law.

Status:

Not implemented. See finding number 00-1.

SECTION ON OTHER MATTERS

STONE COUNTY, MISSOURI
LETTER ON OTHER MATTERS

We have audited the special-purpose financial statements of various funds of Stone County, Missouri, as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated October 25, 2001.

We did not audit the operations of elected officials with funds other than those presented in the special-purpose financial statements. The operations of such officials will be audited and reported on during the state auditor's next scheduled audit of the county.

This Letter on Other Matters presents matters other than the findings, if any, reported in the accompanying Schedule of Findings. These matters resulted from our audit of the special-purpose financial statements of Stone County but do not meet the criteria for inclusion in the written report on compliance and on internal control over financial reporting that is required for an audit performed in accordance with *Government Auditing Standards*. Nevertheless, the county should consider these matters and take appropriate corrective action.

1. Budgetary and Financial Reporting Procedures

Actual expenditure amounts exceeded approved budget amounts in some funds for each of the years ended December 31, 2000 and 1999. In addition, the published financial statements of the county did not include the financial activity of various county funds, as required by state law.

2. Schedule of Expenditures of Federal Awards

The county is required by OMB Circular A-133 to prepare a schedule of expenditures of federal awards (SEFA). The SEFA schedule is used to determine the single audit requirements of the county. The county's SEFA contained numerous errors and omissions for each of the years ended December 31, 2000 and 1999. The SEFA should be accurately prepared to ensure all federal awards are properly reported.

3. County Expenditures

The county did not always advertise and solicit bids, nor was bid documentation always retained for several purchases. In addition, the county paid \$6,482 in 2000 to a company owned by the wife of the Chief Deputy in the Sheriff's Department for computers, monitors, and a computer program. No bids were solicited.

4. Property Records and Procedures

The County officials or their designees do not maintain adequate general fixed assets records or perform annual physical inventories in accordance with Section 49.093 RSMo 2000. Adequate general fixed asset records and inventory procedures are necessary to meet

statutory requirements, safeguard county assets, and provide a basis for determining proper insurance coverage. In addition, property tags are not attached to some assets designating the items as county property.

5. Associate Commissioner Salaries

Section 50.333.13, RSMo enacted in 1997, allowed county salary commissions meeting in 1997 to provide mid-term salary increases for associate county commissioners elected in 1996. The motivation behind this amendment was the fact that associate county commissioners' terms had been increased from two years to four years. Based on this statute, in 1999 Stone County's Associate County Commissioners salaries were each increased approximately \$7,390 yearly, according to information from the County Clerk.

On May 15, 2001, the Missouri Supreme Court handed down an opinion in a case that challenged the validity of the statute. The Supreme Court held that this section of statute violated Article VII, Section 13 of the Missouri Constitution, which specifically prohibits an increase in compensation for state, county and municipal officers during the term of office. This case, *Laclede County v. Douglass et al.*, holds that all raises given pursuant to this statute section are unconstitutional.

Based on the Supreme Court decision, the raises given to each of the Associate County Commissioners, totaling approximately \$14,780 for the two years ended December 31, 2000, should be repaid.

6. Prosecuting Attorney's Salary

The Prosecuting Attorney did not receive compensation equal to the compensation of an Associate Circuit Judge as required by section 56.265, RSMo 2000 for a full-time prosecutor. The county failed to adjust the Prosecuting Attorney's salary annually with the Associate Circuit Judge's salary, resulting in the Prosecuting Attorney receiving \$10,147 less than the Associate Circuit Judge.

The County Commission and the County Clerk do not understand how the Prosecuting Attorney's salaries may be adjusted each year pursuant to Section 476.405 and not contravene Article VII, Section 13 of the Missouri Constitution, but that the Associate County Commissioners' salary increase violates that provision.

7. Personnel Records

Time sheets or other records of actual time worked as well as leave records are not maintained for the jail administrator, maintenance supervisor, chief deputy, and planning and zoning administrator. In addition, the county employs numerous individuals who are related to each other, but does not have a policy regarding the employment and supervision of related employees.

8. Health Center

Adequate records were not maintained to allow for reconciliations of receipts to deposits. Receipts are not deposited intact daily or when accumulated receipts exceed \$100. Some monies are withheld from deposits for use as a change fund; however, the change fund is not maintained at a set amount.

The health center's checks require two signatures, a board member's, the administrators, or the assistant administrators; however, checks are occasionally signed in advance.

The Health Center Administrator does not sign time sheets to document approval of payroll expenditures. In addition, the Health Center did not always issue Form 1099 to applicable businesses or individuals.

Because bank reconciliations were not prepared as of December 31, the cash balance reported on the cash reconciliation portion of the Health Center's budget was inaccurate.

9. Emergency 911 Board

The board's review and approval of expenditures is not adequately documented. Although the board minutes make a general reference that the listing of bills is approved for payment, the listings are not signed or initialed by the board members and retained with the official board minutes. In addition, checks are not always issued in numerical sequence, and expenditure documentation did not always indicate receipt of goods or services.

Payments totaling \$1,400 were made to a former employee for expenses; however, no documentation was maintained. In addition, these payments were not subjected to payroll withholdings, or reported on the employees' W-2 form.

The cash balance reported on the budget prepared by the Emergency 911 Board did not include interest earned on all certificates of deposits. In addition, the amount of collateral securities pledged by the Emergency 911 Board's depository banks at December 31, 1999 and during January 2000 were insufficient to cover monies in the custody of the Emergency 911 Board.

Time records were not signed by supervisors to document approval of payroll expenditures. In addition, the Emergency 911 Board did not always issue Form 1099 to applicable businesses or individuals.

This Letter on Other Matters is intended for the information of the management of Stone County, Missouri, and other applicable government officials. However, this letter is a matter of public record and its distribution is not limited.