



Claire McCaskill

Missouri State Auditor

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August 2006

Lincoln County Public Water  
Supply District #2

Year Ended December 31, 2005



Office Of  
Missouri State Auditor  
Claire McCaskill

August 2006

The following findings were included in our audit report on the Lincoln County Public Water Supply District #2.

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The Lincoln County Public Water Supply District #2 (district) does not have a current contract with the City of Troy regarding the district's arrangements to purchase water from the city and provide water hookups to district residents. A contract was established in 1980 for a period of 20 years with a renewal option for an additional 5 years, but there is no documentation that the contract was renewed after the original 20 years and no current contract has been negotiated. In addition, the district's water rules and regulations appear to be outdated because the district is not following several of the provisions outlined in the rules and regulations, including billing and collection cycles and delinquent service charges.

The district does not reconcile the total gallons of water billed to customers to the gallons of water purchased from the City of Troy. Our review noted water losses and while the city provided possible explanations, they had not identified water losses or formally documented the reasons for such losses. The district does not have procedures to reconcile total billings, payments received, and amounts remaining unpaid, and has not maintained a complete, accurate, and up-to-date listing of refundable meter deposits. Late fees assessed on some utility payments were abated without documented reasons or board approval. In addition, adequate documentation is not maintained to support partial payment agreements. Also, the district has not established formal procedures for making adjustments to individual water bills, and there is no independent review or approval of the adjustments recorded.

A district board member and an office employee are the grandson and daughter, respectively, of the board president. There was no documentation in the board minutes as to whether the board president abstained from voting on the appointment of his grandson, or the hiring of his daughter.

The district does not have a formal bidding policy. The decision of whether to solicit bids/proposals for a particular purchase is made on an item-by-item basis. During 2005, bids were not solicited for water meter installation and reading, plumbing services and plumbing inventory. Additionally, a request for proposal was not distributed by the district to use in selecting their legal and accounting services. There was inadequate documentation to support certain expenditures, including meter reading and grass mowing. For two loads of dirt, a district check was made payable to cash, then cashed by the district with the cash used to pay the vendor.

The board president receives a \$150 monthly travel allowance, and during 2005, the

YELLOW SHEET

district reimbursed him \$854 for cell phone costs and \$143 for gasoline expenses. The district does not require documentation of any expenses he incurs on behalf of the district, including the amount of his cell phone usage that is for district business nor the destination and reason for his trips.

The district does not prepare budgets, submit annual financial reports, and obtain annual audits as required by state law. Also, in connection with \$83,700 in water system revenue bonds issued in 1974, the district has not established separate accounts to fund the costs of operation and maintenance, depreciation, and extensions as required by state law. Furthermore, the sewerage system revenue bonds issued in September 2005 will require similar accounts.

Also included in the report are recommendations related to minutes, agendas and bylaws, internal controls over receipts, personnel procedures, and capital asset records.

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LINCOLN COUNTY PUBLIC WATER SUPPLY DISTRICT #2

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STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Board of Directors  
Lincoln County Public Water Supply District #2

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Lincoln County Public Water Supply District #2. The district engaged Wade Stables P.C., Certified Public Accountants (CPAs), to audit the district's financial statements for the year ended December 31, 2005. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the district included, but was not necessarily limited to, the year ended December 31, 2005. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the district, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the

provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the district's management and was not subjected to the procedures applied in the audit of the district.

The accompanying Management Advisory Report presents our findings arising from our audit of the Lincoln County Public Water Supply District #2.



Claire McCaskill  
State Auditor

April 21, 2006 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA  
Audit Manager: Mark Ruether, CPA  
In-Charge Auditor: Robert L. McArthur II

MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS



LINCOLN COUNTY PUBLIC WATER SUPPLY DISTRICT #2  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

<b>1. Water System and Billing Concerns</b>
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The district does not have a current water purchase agreement with the City of Troy and has not updated their water rules and regulations. In addition, the district does not reconcile water billings to water usage, does not reconcile their accounting records, and does not maintain a complete listing of refundable meter deposits. The district also does not maintain adequate documentation or obtain proper approval for late fee exemptions, partial payment agreements, or credit adjustments. The district did not have a certified chief operator for their water system for the year ended December 31, 2005.

A. The district does not have a current contract with the City of Troy regarding the district's arrangements to purchase water from the city and provide water hookups to district residents. In addition, the district's water rules and regulations are not up-to-date. The following concerns were noted during our review:

- The water contract between the district and the City of Troy was dated May 6, 1980, was for a period of 20 years, and had a renewal option for an additional five years at the district's request. Also, the contract established a bulk rate for water usage of \$1.00 per 1,000 gallons while the district currently pays the city \$1.65 per 1,000 gallons of usage, and the district currently has over 300 water hookups, exceeding the contract limitations of 250. Per discussion with the City Clerk of the City of Troy, a new contract has not been negotiated as of June 1, 2006. As a result, there is no evidence that there has been a valid agreement in place with the city since 2000, and there appears to be no current written agreement with the city.
- The district's water rules and regulations require bills to be sent to customers on the 5th day of the month and payment due by the 16th of the month, however such dates do not correspond with the district's actual billing cycle. The rules also indicate that bills not paid by the 16th will be charged a 5 percent service charge; however, the district currently charges 10 percent. In addition, the rules indicate that each customer shall read their own meters; however, the meters are read by the district's meter reader. Finally, the water rules and regulations reference a meter deposit resolution to be adopted by the board; however, no such resolution was provided for our review.

A signed, written, and updated contract should be maintained to support the district's agreement with the City of Troy and to prevent misunderstandings. In addition, since the water rules and regulations were adopted by the board to govern the district and its residents, such rules and regulations should be maintained in an up-to-date manner.

- B. The district does not reconcile the total gallons of water billed to customers to the gallons of water purchased from the City of Troy. Our review of water purchased and billed in 2005, noted an average water loss of approximately 12 percent for the year; however, in two of these months, the water loss was 25 and 22 percent, respectively. District officials indicated that the higher water losses were probably due to the annual flushing of the water system, as well as water breaks which occurred during construction of the new sewer system; however, the district does not investigate significant water losses or formally document the reasons for such losses.

To help detect any significant water loss on a timely basis and to help ensure all water usage is properly billed, the district should monthly prepare and maintain records of the total gallons of water pumped and reconcile them to the gallons of water billed. Significant differences should be investigated. The Public Service Commission generally recommends such differences be investigated if unbilled water usage exceeds 15 percent.

- C. The district does not have procedures to reconcile total billings, payments received, and amounts remaining unpaid. The computer system automatically carries any unpaid balance from the previous month's detail billing report to the next month's report after payments have been entered; however, monthly reconciliations are not performed to ensure beginning receivable balances plus total billings less total collections equals ending receivable balances.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. Complete documentation of the reconciliations should be retained to support conclusions and any corrections made.

- D. The district does not maintain a complete, accurate, and up-to-date listing of refundable meter deposits, and the district has not established a control account to track total liabilities related to meter deposits. District residents are required to pay a meter deposit before receiving water services. The clerk records meter deposits in a spiral notebook which lists deposits received by year. The disposition of refunded meter deposits is not recorded in the notebook, so a total of the district's current liability could not be easily determined. In addition, some meter deposits that were received in 2005 were not recorded in this notebook.

The district should review its meter deposit listing and establish a control account liability balance for the total of meter deposits. In addition, the district needs to keep the detailed listing updated and periodically reconcile the detailed listing to the control account balance. These procedures would help ensure that sufficient funds are available for the payment of all liabilities.

- E. Late fees assessed on some utility payments were abated without documented board approval, and the reasons for these abatements were also not documented.

In addition, adequate documentation is not maintained to support partial payment agreements.

The district has a computerized billing system which automatically records a late fee of 10 percent to customer accounts if payment has not been received approximately 30 days after the billing date. However, if the assistant district clerk believes such an adjustment is appropriate, she has the ability to abate the late fees from the computer system, without obtaining board approval or maintaining adequate supporting documentation for the abatement. Our review noted that some late fees were abated without documented reasons to support the abatements. In addition, the assistant district clerk may allow a water customer to make partial payments for specific reasons, such as when a customer experiences a significant water leak. However, board approval is not documented for these partial payment agreements.

Failure to consistently charge the late fee to all individuals results in inequitable treatment of customers. To ensure all late fee adjustments to water billings and partial payments on delinquent accounts are proper, the Board of Directors should review and approve documentation supporting all late fee adjustments and partial payment agreements.

- F. The district has not established formal procedures for making adjustments to individual water bills, and there is no independent review or approval of the adjustments recorded on the computerized water system. While the board president may verbally authorize adjustments to the water bills upon discussion with the assistant clerk, these adjustments are not formally approved or documented to ensure that all adjustments made were appropriate. Our review noted no significant adjustments to water bills; however, without an independent review and approval of all adjustments, the risk of unauthorized adjustments is increased.

To ensure that all credit adjustments are valid and properly approved, someone independent of receipting and recording functions should review all credit adjustments, and proper supporting documentation should be maintained of such adjustments and be periodically reviewed and approved by the board.

- G. Prior to 2006, the district did not have a licensed certified operator for their water system as required by state regulations. Currently the district is using the City of Troy's operator to perform monthly testing of the district's water while the district's plumber obtains the proper certification necessary to comply with state regulations.

State regulations require that no governmental subdivision shall operate a public water system unless the competency of the chief operator to operate the facility is duly certified by the Department of Natural Resources as provided in 10 CSR 60-14.020 or 10 CSR 60-14.010(4)(A)5. In addition, an interim operator shall be

considered the system's certified chief operator for the purposes of complying with 10 CSR 60-14.010 and 10 CSR 60-14.020 on a temporary basis until a properly certified chief operator is hired.

**WE RECOMMEND** the Board of Directors:

- A. Update the rules and regulations governing the district water system. In addition, a signed and updated contract should be maintained to support the district's agreement to purchase water from the City of Troy and to provide water hookups.
- B. Perform monthly reconciliations of the total gallons of water billed and the total gallons of water purchased. Any significant differences should be documented and investigated.
- C. Perform monthly reconciliations of sewer billings, collections, and receivables to ensure the accounting records are in balance.
- D. Maintain a complete listing of meter deposits and periodically reconcile the listing to monies held by the district.
- E. Ensure late fees are charged in accordance with district policy, and review and approve any late fee abatements or partial payment agreements.
- F. Establish formal procedures to require someone independent of the utility system to review and approve all credit adjustments and ensure adequate documentation is retained of such adjustments.
- G. Continue to use a licensed certified operator in accordance with state regulations.

**AUDITEE'S RESPONSE**

- A. *We are in the process of obtaining an updated contract with the City of Troy for the water system. In addition, we plan to update our water rules and regulations.*
- B. *We agree and plan to perform monthly reconciliations of water usage and amounts billed.*
- C&D. *We agree and plan to implement these recommendations.*
- E&F. *We agree with these recommendations.*
- G. *We are currently utilizing Troy's certified operator and are in the process of having our plumber obtain the necessary certification.*

**2.****Questionable Appointments**

A district board member and an office employee are the grandson and daughter, respectively, of the board president. On August 5, 2005, the board president's grandson was appointed as a new board member. There was no documentation in the board minutes as to whether the board president abstained from voting on the appointment of his grandson, as there was no documentation how each board member voted. In addition, on October 3, 2003, the board approved a motion to hire the board president's daughter to work in the district office. Again, there was no documentation as to whether the board president abstained from voting on the hiring of his daughter or how each board member voted.

Article VII, Section 6, of the Missouri Constitution provides that any public official who names or appoints to public office or employment any relative within the fourth degree shall forfeit his office. Because of the serious consequences which result by hiring or appointing a relative, the board should ensure its members abstain from any decision to hire a relative and ensure that action is fully documented in the board minutes. In addition, the board should consider establishing policies, including a code of conduct for district officials, which address this type of situation.

**WE RECOMMEND** the Board of Directors ensure board members abstain from voting when a relative's employment or appointment is involved. Such matters should be completely documented so the public has assurance that no district official or employee has acted improperly. The board should also consider adopting a code of conduct for officials and employees.

**AUDITEE'S RESPONSE**

*The board is in agreement that the board president did not vote on these matters. In the future, we will ensure all votes are sufficiently documented in the minutes, and we will consider adopting a code of conduct.*

**3.****Expenditures**

The district does not have formal bidding policies and did not solicit bids for some purchases or solicit requests for proposals for some professional services. In addition, invoices and supporting documentation for some expenditures were not retained, and expenditures were incurred which do not appear to be a prudent use of public funds. The district does not require the board president to document his actual costs for district reimbursements he receives, and the district does not report payments to non-employees to the IRS as required by federal guidelines.

- A. The district does not have formal bidding policies. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis.

Bids were not solicited for the following purchases for the year ended December 31, 2005:

<u>Expenditure</u>	<u>Amount</u>
Water meter installation	\$14,759
Plumbing	5,149
Plumbing inventory	4,846
Meter reading	3,000

The district did not have written contracts for the plumbing and meter reading services noted above. Section 432.070, RSMo, requires contracts of political subdivisions be in writing.

In addition, the district did not solicit requests for proposals for legal and accounting services. During the year ended December 31, 2005, the district incurred expenditures for these professional services totaling \$7,313 and \$1,550, respectively.

Formal bidding procedures for major purchases provides a framework for economical management of the district's resources and help ensure the district receives a fair value by contracting with the lowest or best bidder. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the district's business. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids and proposals received and reasons noted why a bid or proposal was selected. In addition, soliciting proposals for professional services help provide a range of possible choices and allows the district to make a better-informed decision to ensure necessary services are obtained from the best qualified vendor at the lowest and best cost.

- B. The district did not require documentation, such as vendor invoices, to support the following expenditures:

<u>Expenditure</u>	<u>Amount</u>
Meter reading	\$3,000
Grass mowing	120
Two loads of dirt	100
Locating water lines	95
Cleaning services	20

The meter reader gets \$250 per month for reading approximately 300 meters; however the district has not evaluated the actual time needed to perform this service. For the two loads of dirt noted above, a district check was made payable to cash, then cashed by the district and the cash was used to pay the vendor. District officials indicated that the vendor would only accept cash for the two

loads of dirt. Making disbursements in cash increases the risk of loss or theft of district funds.

All expenditures should be made by check and supported by paid receipts or vendor invoices to ensure the obligation was actually incurred and the expenditures represent appropriate uses of public funds.

C. The district annually holds an employee Christmas dinner. Each December, board members, employees, the district attorney, and their spouses or guests are invited to attend the annual Christmas party. For the year ended December 31, 2005, expenditures totaled \$419 for 18 people who attended. This expenditure does not appear to be a necessary cost of operating the district.

D. The following concerns were noted regarding reimbursements paid the board president.

1. The district reimburses the board president one-half of his monthly personal cell phone bill. However, he does not document the amount of his cell phone usage that is for district business. During 2005, the district reimbursed him a total of \$854 for cell phone costs. In addition, the district reimburses the board president for gasoline in his personal vehicle; however, these reimbursements were not adequately supported, as the destination and reason for the trips were not documented. During 2005, the district reimbursed him a total of \$143 for gasoline expenses.

These reimbursements may represent taxable compensation to the president but are not reported on his W-2 forms. IRS regulations require travel and expense reimbursements be reported on the recipients' W-2 forms unless the recipients are required to report the related expenses to their employer.

2. On October 1, 2004, the board approved a motion to pay the board president a travel expense allowance of \$150 per month. However, there was no documentation as to whether the board president abstained from voting to approve this reimbursement to himself, as votes were not documented in the meeting minutes. In addition, the board president is not required to document the actual travel expenses he incurs in return for the \$150 monthly reimbursement, and as noted above he already receives cell phone usage and gasoline reimbursements.

Starting in 2005, the district classified the \$150 payments as compensation and reports this amount on W-2 forms. However, Section 247.060.1, RSMo, indicates that the board of directors shall serve without pay. Given that the board president is already reimbursed for gasoline and cell phone usage, the board should reconsider why the \$150 payments are being made and whether they are appropriate.

The district should review these payments to the board president and ensure he is reimbursed for only actual and necessary district expenses. In addition, the district should require the president to provide adequate supporting documentation for all reimbursable expenses, or report as taxable compensation all reimbursements that are not documented. Finally, the board president should abstain from voting to approve any reimbursements made to him.

- E. The district has no procedures in place to ensure Forms 1099 are filed with the Internal Revenue Service (IRS). As a result, the district did not file Forms 1099 for payments made for legal or plumbing services.

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

**WE RECOMMEND** the Board of Directors:

- A. Establish formal bidding policies and procedures, with provisions for documentation of the justification for selecting and rejecting bids or proposals. In addition, proposals should be solicited for professional services and the proposals should be formally evaluated and retained.
- B. Require adequate supporting documentation for all expenditures.
- C. Ensure all district expenditures are a prudent use of public funds.
- D. Require the president to provide adequate supporting documentation for all reimbursable expenses and report as taxable compensation on W-2 forms any reimbursements for which there is no accounting of the actual business-related expense. The board president should also abstain from voting on matters concerning himself.
- E. Establish procedures to ensure IRS Forms 1099 are filed as required.

**AUDITEE'S RESPONSE**

A, B

&E. *We agree with these recommendations.*

C. *We do this as a courtesy to the board members because they serve the district without pay, and it also provides an opportunity for the board and employees to discuss district issues. No district customers have complained about this expenditure to date.*

D. *We will review this matter and take action considered necessary to properly address this matter.*



The district does not have a formal policy for public access to district records. In addition, board minutes did not always include sufficient detail of matters discussed and actions taken, closed session meetings were not documented in accordance with state law, and agendas were not always sufficiently detailed. District bylaws could not be located.

- A. The district does not have a formal policy regarding public access to district records. A formal policy regarding access and obtaining copies of district records would establish guidelines for the district to make the records available to the public. This policy should establish a contact person, an address for mailing such requests, and a cost for providing copies of public records.

Section 610.023, RSMo, lists requirements for making district records available to the public. Section 610.026, RSMo, allows the district to charge fees for copying public records, not to exceed the district's actual cost of document search and duplication.

- B. Board minutes did not always include sufficient detail of matters discussed and actions taken. The board minutes often include very little detail of issues discussed by the board. In addition, there is usually no documentation in the minutes that motions are approved by a vote of the board. Generally, the minutes document that a board member would make a motion on an issue, another board member would second the issue, and the motion carried. In these instances, the minutes did not document that a vote was taken.

Section 610.020.7, RSMo, requires minutes of meetings be taken and retained by all governmental bodies and to include the date, time, place, members present, members absent, and a record of votes taken. Complete and accurate minutes of the board's meetings are necessary to retain a record of the business conducted and to provide an official record of board actions and decisions. In addition, Section 610.015, RSMo, requires all votes be recorded, and if a roll call is taken, to attribute each "yea" and "nay" vote, or abstinence if not voting, to the name of the individual member of the Board of Trustees.

- C. The minutes of open meetings do not document that the board voted to go into closed session, nor the specific reasons for closing the meeting. In addition, the board did not document how some items discussed in closed sessions complied with state law, including sewer project financing and user rates.

Section 610.022, RSMo, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session. In addition, this law provides that the board shall not discuss any other business during the closed meeting that differs from the

specific reasons used to justify such meeting, record, or vote. Section 610.021, RSMo, lists the topics which may be discussed in closed session.

- D. Agendas posted to notify district residents of upcoming board meetings did not always clearly indicate issues to be discussed at the board meetings. For example, many of the agendas simply stated that the meeting was called "to discuss general business and possible litigation."

Section 610.020.1, RSMo, requires a tentative agenda and a meeting notice be posted for all open meetings of a public governmental body. To better inform the public, the agendas should include sufficient detail about the issues to be discussed.

- E. The Board of Directors could not locate the district's bylaws. Per discussion with district officials, bylaws were adopted upon the incorporation of the district. Good business practice dictates the district adopt bylaws to govern board elections, meetings, and rules for transacting district business. Bylaws can be used as a management tool for establishing district policies and procedures. The bylaws should be updated on a regular basis and should comply with applicable laws and regulations. Bylaws should include policies relating to bidding, purchasing, and conflicts of interest, as noted in this report.

**WE RECOMMEND** the Board of Directors:

- A. Develop a formal policy regarding procedures to obtain public access to, or copies of, public district records.
- B. Ensure sufficient detail of all significant discussions is documented in the meeting minutes to better inform the public, and ensure records of votes and other actions taken are included in the minutes as required by state law.
- C. Ensure minutes document the vote to go into closed session and state the reasons for going into closed session. In addition, the board should ensure only allowable specified subjects are discussed in closed session.
- D. Ensure tentative agendas of all board meetings include sufficient detail about the issues to be discussed.
- E. Locate or adopt written bylaws to govern district business.

**AUDITEE'S RESPONSE**

- A. *We will look into adopting a formal policy and establishing a records custodian.*
- B-D. *We agree and have already implemented these recommendations.*

E. *We will try to locate the bylaws and update them as necessary.*

<b>5. Budgets, Financial Statements, and Restricted Revenues</b>
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The district does not prepare budgets, submit annual financial statements to the State Auditor's Office, or obtain audits in accordance with state law. In addition, the district needs to separate water and sewer system revenues into the proper accounts in accordance with applicable state statutes and bond covenants.

A. Budgets are not prepared as required by state law. Section 67.010, RSMo, requires the preparation of an annual budget which should present a complete financial plan for the ensuing budget year and sets specific guidelines for the format of the annual operating budget.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for the district's operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted to actual disbursements. A complete budget should include separate revenue and disbursement estimations, and include the beginning available resources and reasonable estimates of ending available resources. The budget should also include a budget message and comparisons of actual revenues and disbursements for the two preceding fiscal years.

B. The district did not submit annual financial reports to the State Auditor's office for the years ended December 31, 2004 and 2003, until our request in March 2006. Section 105.145, RSMo, requires political subdivisions to file annual reports of the financial transactions of the political subdivision with the State Auditor's Office within the time prescribed by the State Auditor (currently within four months of the end of the fiscal year for un-audited financial statements and within six months of the end of the fiscal year for audited financial statements).

C. Prior to the year ended December 31, 2005, the district did not obtain annual audits as required by state law. The district annually contracts with an independent auditor to perform a compilation of the district's financial statements, but did not receive the auditor's opinion on the fair presentation of those statements. The district recently contracted and received an audit for the year ended December 31, 2005. Section 247.080.2, RSMo, provides that annual audits of the district's receipts and expenditures be performed.

D. In connection with the issuance of \$83,700 in water system revenue bonds in 1974, the district has not established separate accounts to fund the costs of operation and maintenance, depreciation, and necessary extensions and enlargements out of the net income and revenues arising from the operation of the waterworks system, as required by Section 247.130.5, RSMo. All water revenues

are recorded in one account and the district has not established separate reserve accounts for debt service or depreciation and replacement. As of December 31, 2005, the district owed \$6,264 on these water bonds which should be retired in early 2007.

In addition, sewerage system revenue bonds issued on September 26, 2005, in the amount of \$219,400, require similar accounting as well as separate accounts for debt service payments, debt service reserve, and surpluses as required in the bond covenants. The sewer bonds will be paid over a period of 35 years. To ensure compliance with applicable state statutes and bond covenants, the board should establish the required accounts and set aside the required funding amounts.

**WE RECOMMEND** the Board of Directors:

- A. Prepare annual budgets as required by state law.
- B. Submit annual financial reports to the State Auditor's Office as required by state law.
- C. Obtain annual audits as required by state law.
- D. Establish the required accounts for the bond issues in accordance with state statutes and bond covenants, and deposit the required amounts into these accounts.

**AUDITEE'S RESPONSE**

*A&B. We agree and plan to implement these recommendations.*

*C. We agree and will continue to obtain annual audits as required.*

*D. We have been working with our CPA to establish the required accounts for the sewer bonds. In addition, we will consider early payoff of the water system bonds.*

<b>6. Internal Controls and Personnel Matters</b>
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Receipts are not always recorded in the district's records, reconciled to deposits, or deposited intact and in a timely manner. In addition, documentation was not maintained to support an employee pay raise, and timesheets are not prepared by district employees.

- A. The district needs to improve its controls over receipts as they are not always recorded in the district's records, deposited intact, or reconciled to deposits. The district receives cash and checks for the payment of water bills, meter deposits and memberships, meter sales, and other miscellaneous billings. These receipts are recorded in various ways, including water billing stubs, post-it notes (if no

billing stub is returned for a water payment), pre-numbered receipt slips (usually requested by the payor if payment is made in cash), a spiral notebook (for meter deposits and memberships), or on a district invoice. In addition, receipts are not reconciled to deposits, and recording receipts in so many different ways makes it difficult to perform such reconciliations.

Our review of receipts and deposits for the month of August 2005 noted several receipts that were not recorded by any of the means indicated above. In addition, receipts were not always deposited intact or in the order received, and there were no reconciliations between amounts received and amounts deposited.

To ensure the proper handling and safeguarding of district monies, the number of ways to record receipts should be significantly reduced, and all monies should be recorded immediately upon receipt (preferably in the pre-numbered receipt book or by the billing stubs). In addition, receipts should be deposited intact and in the order received, and recorded receipts should be reconciled to bank deposits, including the composition of cash and checks received.

- B. Receipts are not deposited on a timely basis. Receipts are generally deposited two times a week and averaged approximately \$1,600 during 2005. To adequately safeguard receipts and reduce the risk of loss or misuse of funds, all receipts should be deposited daily or when accumulated receipts exceed \$100.
- C. Documentation was not maintained to support a pay raise given to the assistant district clerk. Beginning January 2005, the assistant district clerk received a pay increase of \$1.50 per hour; however, there was no documentation to show that this was approved by the Board of Directors, although several of the board members indicated they did approve the pay raise. To ensure all changes to employees' compensation are properly authorized, documentation of board approval should be maintained to support all employee raises.
- D. Time sheets are not prepared by district employees. In addition, the district has not adopted a written personnel policy, addressing the use of timesheets and other personnel matters. Timesheets are necessary to document hours actually worked, substantiate payroll expenditures, and provide the board with a method to monitor hours worked. The board should require detailed time sheets be prepared of actual time worked by all district employees. In addition, a comprehensive written personnel policy would provide guidance and control to ensure equitable treatment among employees, and the avoidance of misunderstandings.

**WE RECOMMEND** the Board of Directors:

- A. Ensure all receipts are recorded immediately upon receipt, deposited intact and in the order received, and are reconciled to bank deposits, including the composition of cash and checks. In addition, the district should reduce the number of methods in which receipts are recorded.

- B. Ensure all receipts are deposited daily or when accumulated receipts exceed \$100.
- C. Ensure board approval is documented and maintained to support employee raises.
- D. Require time sheets be prepared by all employees which reflect actual time worked. In addition, the board should adopt a formal written personnel policy.

**AUDITEE'S RESPONSE**

*A&C. We agree with these recommendations.*

*B. We agree and have already implemented this recommendation.*

*D. We agree that timesheets should be prepared. In addition, we will consider implementing a personnel policy.*

<b>7.</b>	<b>Capital Asset Records</b>
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The district's records of capital assets are not complete, and annual physical inventories of property are not performed.

- A. The district's records of capital assets are not complete. For example, the district computer is not included on the property listing, while a truck and trailer no longer owned by the district are included on the listing. In addition, property is not tagged for specific identification and a specific location is not identified.

The capital asset records should include a detailed description of the asset including the name; description; make and model number, if applicable; asset identification number; the physical location of the asset; and the date and method of disposition, if applicable.

- B. Annual physical inventories of capital assets are not performed. Annual physical inventories are necessary to ensure the records are accurate, identify any unrecorded addition and deletions, and detect loss, theft, or misuse of assets. The district should conduct annual physical inventories and reconcile the results of the inventories to the detailed property listing, investigating any discrepancies.

Adequate capital asset records are necessary to secure better internal controls and safeguard district assets that are susceptible to loss, theft, or misuse.

**WE RECOMMEND** the Board of Directors:

- A. Maintain detailed capital asset records that include all pertinent information for each asset including description, cost, acquisition date, identification number,

location, and date and method of disposition, if applicable. In addition, tags should be used to identify all district property.

- B. Require annual physical inventories be conducted for capital assets. The physical inventories should be reconciled to the detailed property listing.

**AUDITEE'S RESPONSE**

*A&B. We agree and plan to implement these recommendations.*

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION



LINCOLN COUNTY PUBLIC WATER SUPPLY DISTRICT #2  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

The Lincoln County Public Water Supply District #2 was incorporated in 1972 and currently serves 319 water customers and 113 sewer customers.

The Board of Directors consists of five members who serve three-year terms. The Board elects a President and Vice President from the board membership and appoints a clerk/treasurer for the district. The Board of Directors and other principal officials during the year ended December 31, 2005, are identified below. The members of the Board receive no compensation; however, the Board President is paid a travel allowance of \$150 per month.

Board of Directors	Dates of Service During the Year Ended December 31, 2005	
Charles Day, President	January – December 2005	
John Littleton, Vice President	January – December 2005	
Elsie Cockrell, Board Member	January – December 2005	
Jim Prouhet, Board Member	January – December 2005	
Nathan Day, Board Member (1)	August – December 2005	
Other Principal Officials and Employees	Dates of Service During the Year Ended December 31, 2005	Compensation Paid for the Year Ended December 31, 2005
Carolyn Cockrell, District Treasurer and Clerk (2)	January – December 2005	\$ 10,464
Carmen Wells, Assistant Clerk	January – December 2005	9,399
James D. Burlison, District Attorney (3)	January – December 2005	

- (1) This position was vacant from September 2003, until Nathan Day's appointment to the board in August 2005.
- (2) Carolyn Cockrell was also reimbursed \$2,294 for health insurance benefits for the year ended December 31, 2005.
- (3) The district is billed on a hourly basis by the law firm of McIlroy and Millan for James Burlison to serve as District Attorney. The district paid \$7,313 for legal services for the year ended December 31, 2005.