



**BLUE MOUND SPECIAL ROAD DISTRICT
YEAR ENDED DECEMBER 31, 2003**

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

**Report No. 2004-41
May 26, 2004
www.auditor.mo.gov**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

May 2004

The following problems were discovered as a result of an audit conducted by our office of Blue Mound Special Road District, Polk County, Missouri.

The Blue Mound Special Road District (district) does not hold regular meetings to conduct business. Apparently the three road commissioners occasionally get together and drive the roads in the district, and during this time, they discuss road work and the financial situation of the district. However, there is no documentation of these discussions. The governing bodies of all political subdivisions in this state are required to conduct business in regular open meetings. State law provides that meetings of a special road district board shall be held at such time and place as agreed in writing or by order of a board officer.

The district appears to operate without any structure such as budgeting for anticipated expenditures and developing a maintenance plan for the roads. A complete and well-planned budget is necessary to meet statutory requirements, and provide a means to effectively monitor actual costs and revenues. Additionally, a road maintenance plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of roads throughout the year.

The district's accounting records are solely handled by the district treasurer without any approval of expenditures or an independent review by the other commissioners.

The district selects vendors without soliciting bids from other vendors. The district lacked supporting documentation for some expenditures, and does not prepare IRS form 1099-MISC as required.

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

YELLOW SHEET

BLUE MOUND SPECIAL ROAD DISTRICT

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Commissioners
Blue Mound Special Road District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Blue Mound Special Road District. The scope of our audit of the district included, but was not necessarily limited to, the year ended December 31, 2003. 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 Blue Mound Special Road District.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive style with a large initial "C".

Claire McCaskill
State Auditor

February 26, 2004 (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, CGFM
In-Charge Auditor: Amy Baker

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

BLUE MOUND SPECIAL ROAD DISTRICT
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Meetings and Minutes

The commissioners of the Blue Mound Special Road District have not held regular meetings to conduct business. The road district Treasurer indicated that the three road commissioners occasionally get together to drive the roads in the district, and during this time, they discuss road work and the financial situation of the district. However, there is no documentation of these discussions.

The governing bodies of all political subdivisions in this state are required to conduct business in regular open meetings. Section 233.185, RSMo 2000, provides that meetings of a special road district board shall be held at such time and place as agreed in writing or by order of a board officer. The secretary is required to keep a record of all proceedings of the Board. The Missouri Open Meetings and Records Law at Chapter 610 requires public notice of all meetings as well as reasonable accommodation to assure public access to meetings. Any time a quorum of board members meet in person or by phone and transact public business, they are subject to the Open Meetings and Records Law. In addition, Section 67.110, RSMo 2000, requires public meetings to be held at which citizens may be heard prior to the board approving the property tax levy.

Overseeing and managing district operations as a formally functioning body strengthens public accountability and internal fiscal controls. In addition, regular public meetings allow citizen participation and input in decisions made by the board as intended by law.

WE RECOMMEND the Board of Commissioners establish regular meetings and ensure compliance with the Open Meetings and Records Law for all meetings and maintain a formal record of all board actions.

AUDITEES REPOSE

In the past, we have held meetings, but citizens did not attend. We will now begin having two meetings per year – spring and fall.

2. Planning and Financial Reporting

Several concerns were noted regarding the district's financial planning and reporting. The district appears to operate without any structure such as budgeting for anticipated expenditures and developing a maintenance plan for the roads.

A. The district does not prepare and adopt annual budgets. Section 67.010, RSMo 2000, requires the preparation of an annual budget which shall present a complete

financial plan for the ensuing budget year, as well as actual or estimated revenues and expenditures for the preceding two years.

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 district operations and provide a means to effectively monitor actual costs and revenues. It will also assist in setting tax levies and informing the public about district operations and current finances.

- B. Section 105.145, RSMo 2000, requires the district to file a financial report with the State Auditor's office annually. The district filed the financial statements for 2002, 2001, and 2000 in October 2003. The financial report is to be filed within four months after the end of the district's fiscal year. The district submitted an annual financial statement timely for 2003.
- C. The road district does not furnish expenditure information to Polk County for publication of the road district's financial statement. Polk County published the county treasurer's receipts, and the disbursements to the road district's treasurer; however, detailed information regarding actual road district expenditures is not provided. Identifying expenditures by vendor and purpose for inclusion in the published financial statements could provide taxpayers more relevant information. In addition, the district does not prepare periodic financial statements and make them available to citizens upon request.
- D. A formal maintenance plan for district roads has not been prepared. A maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the roads to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, the Board should consider holding a public hearing to obtain input from district residents.

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

WE RECOMMEND the Board of Commissioners:

- A. Prepare an annual budget that contains all information required by state law to provide a complete financial plan for the district.
- B. Ensure annual financial reports are filed with the State Auditor's office as required and that such reports are filed within four months after the end of the district's fiscal year.

- C. Prepare periodic financial statements and furnish Polk County with expenditure totals by vendor and purpose for publication of the annual financial statements.
- D. Prepare and document a maintenance plan at the beginning of the calendar year and periodically update the plan throughout the year. In addition, the Board should review the progress made in the repair and maintenance of roads to make appropriate decisions on future projects.

AUDITEES REPOSE

- A. *We will now prepare an annual budget.*
- B. *We will ensure the financial report is filed timely.*
- C. *We will prepare a financial report for each board meeting and ensure the county receives detailed financial information for the published financial statements.*
- D. *We will prepare a road maintenance plan for 2005 when we prepare our budget.*

3.	Accounting Controls and Procedures
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District bills are routinely approved and paid by the district treasurer, without any documentation that the other two road commissioners have reviewed or approved the invoices. In addition, the district's treasurer maintains all accounting records, initiates all financial transactions, signs checks and maintains custody of the district's bank account. There is no documentation that an independent review is performed by the other two road commissioners. Further, \$360 was paid for road repairs to a business owned by the district treasurer without documentation of approval by the other two commissioners.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. The board should implement procedures to ensure a proper segregation of duties including, but not limited to, requiring bank statements to be received unopened from the bank, and reviewed, and/or reconciled by someone independent of the bookkeeping duties. Also, to adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the commissioners to denote their approval. In addition, Section 233.335, RSMo 2000, requires the president of the district to sign all checks.

WE RECOMMEND the Board of Commissioners ensure the accounting duties and custody of financial assets are adequately segregated or that appropriate reviews of accounting records and unpaid invoices are performed. In addition, the president of the district should sign all checks.

AUDITEES REPOSE

The other two commissioners were consulted prior to incurring the \$360 for road repairs. We will now begin documenting the commissioners approval of all expenditures. The President's signature will be added to all checks.

4. Expenditures

The district selects vendors without soliciting bids from other vendors. The district lacks supporting documentation for some expenditures, and does not prepare form 1099-MISC as required.

- A. The road district does not have a formal bidding policy, and it appears the district has not solicited bids for any purchases. The district Treasurer indicated he is aware of the cost of rock and what local truck drivers charge for hauling; however, no documentation exists to indicate prices were compared before the vendor was selected.

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

Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the winning bid was selected.

- B. Supporting documentation was not retained or available for some expenditures. Vendor invoices or other supporting documentation were not retained or available for 4 of the 20 expenditures reviewed totaling \$402, for rock, hauling, and bond coverage. In addition, the truck drivers provide the district with an invoice for payment; however, the invoice is not always supported by the load tickets. Since most truck drivers charge the district by the ton, the load tickets are essential to ensure the correct billing by the truck driver. Load tickets were not always available for 6 of the 20 expenditures reviewed, including rock and cold mix hauling from various vendors totaling \$28,044. All expenditures should be supported by a vendor invoice and related load ticket to ensure the obligation was actually incurred.
- C. The Special Road District does not issue Forms 1099-MISC as required. The district paid a trucking company \$5,757 for hauling rock, a tree trimming company \$748 for trimming work, an individual \$2,941 for hauling rock, and an

individual \$1,869 for grading during 2003. Sections 6041 through 6051 of the Internal Revenue Code require nonemployee payments of at least \$600 in one year to an individual or unincorporated business be reported to the federal government on Forms 1099-MISC.

WE RECOMMEND the Board of Commissioners:

- A. Establish a formal bidding policy and related procedures. Complete documentation of the bidding process should be maintained, including all bids received and justification for selecting and rejecting bids.
- B. Ensure that all expenditures are appropriately supported by adequate documentation.
- C. Ensure payments totaling greater than \$600 to nonemployees and unincorporated businesses are properly reported to the Internal Revenue Service.

AUDITEES REPOSE

- A. *At our next board meeting we will discuss a bidding policy.*
- B. *In the future, we will ensure all documentation is maintained.*
- C. *For 2004, we will ensure 1099s are prepared.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

BLUE MOUND SPECIAL ROAD DISTRICT
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

Blue Mound Special Road District is located in Polk County, Missouri. The district covers 8.2 miles of eastern Polk County. The Board of Commissioners consists of three commissioners who serve three-year terms. The commissioners receive no compensation.

Elected Officials	Term
John Snider, President	April 2002 to April 2005
Nathan Blosser, Treasurer	April 2003 to April 2006
David Dunseth, Commissioner (1)	October 2003 to April 2004
Maynard Eigisti, Commissioner (1)	April 2001 to October 2003

(1) Mr. Dunseth was appointed in October 2003 to fill the remainder of Mr. Eigisti's term, who resigned.

Assessed valuations and tax rates for 2003 were as follows:

ASSESSED VALUATION

Real estate	\$ 1,173,535
Personal property	<u>592,766</u>
Total	<u>\$ 1,766,301</u>

TAX RATES PER \$100 ASSESSED VALUATION

	Rate
Blue Mound Special Road District	\$ <u>0.3500</u>

A summary of the district's financial activity for the four years ended December 31, 2003, is presented below:

	Year Ended December 31,			
	2003	2002	2001	2000
RECEIPTS				
Property taxes	\$ 5,331	4,802	3,674	3,597
Polk County Capital Improvement Sales Tax	12,300	11,824	11,237	10,854
Polk County CART distribution	8,380	8,843	8,686	8,506
Charges for services	0	0	0	1,249
Interest	559	2,818	144	1,804
Total Receipts	26,570	28,287	23,741	26,010
DISBURSEMENTS				
Grading	1,869	6,946	2,678	3,375
Materials	33,153	33,931	19,846	10,384
Maintenance and repairs	0	5,124	370	170
Dozer work	0	550	560	0
Right-of-way	747	0	0	0
Other	142	78	402	36
Total Disbursements	35,911	46,629	23,856	13,965
RECEIPTS OVER (UNDER) DISBURSEMENTS	(9,341)	(18,342)	(115)	12,045
CASH, JANUARY 1	23,379	41,721	41,836	29,791
CASH, DECEMBER 31	\$ 14,038	23,379	41,721	41,836