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Missouri State Auditor

Lee's Summit Missouri New Longview Transportation Development District



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CITIZENS SUMMARY

Findings in the audit of the Lee's Summit Missouri New Longview Transportation Development District

Accounting Controls	The Transportation Development District (TDD) Board does not provide oversight or review the financial records provided by its banking institution and an accountant hired to prepare its year-end financial statements. Instead, the Board Chairman approved disbursements which were then made by the bank. During the 2 years ended December 31, 2013, the bank made only \$5,930 in debt payments for the Board, even though the TDD had over \$70,000 in its bank account at December 31, 2013. The board was not aware debt payments had not been made because it did not obtain or review bank statements, disbursement documentation, or financial statements. The district's financial statements were not accurate or submitted to the State Auditor's Office timely.
Board of Directors	The TDD property owners have not elected successor directors and the Board has not met regularly. As a result, the Board has not adopted annual budgets in accordance with state law. In addition, budgets which have been adopted do not contain some required elements.

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

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

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

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THOMAS A. SCHWEICH

Missouri State Auditor

G. David Gale, Chairman
and
Board of Directors
Lee's Summit Missouri New Longview Transportation Development District
Lee's Summit, Missouri

We have audited certain operations of the Lee's Summit Missouri New Longview Transportation Development District in fulfillment of our duties under Section 238.272, RSMo. The scope of our audit included, but was not necessarily limited to, the 2 years ended December 31, 2013. The objectives of our audit were to:

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

Our methodology included reviewing minutes of meetings, procedures, financial records, and other pertinent documents; interviewing various personnel of the district, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

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

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Lee's Summit Missouri New Longview Transportation Development District.

A handwritten signature in black ink, reading "Thomas A. Schweich". The signature is fluid and cursive, with the first name "Thomas" and last name "Schweich" clearly legible, and a middle initial "A" in between.

Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Todd M. Schuler, CPA
In-Charge Auditor:	Rex Murdock, M.S.Acct.

Lee's Summit Missouri New Longview Transportation Development District Management Advisory Report - State Auditor's Findings

1. Accounting Controls

The board lacks supervision of financial transactions, and financial statements were inaccurate and not submitted to the State Auditor's Office (SAO) in a timely manner.

1.1 Supervision

The Transportation Development District (TDD) Board does not provide oversight or review the financial records provided by its banking institution and an accountant hired to prepare its year-end financial statements. The Board relies on its bank to prepare reports of summarized transactions of the district and to remit those reports to an accountant that prepares financial statements. In addition, the Board did not review and approve disbursements. Instead, the Board Chairman approved and the bank made disbursements for the TDD. The bank is required to make a debt payment to the developer equal to the district's cash balance after paying other expenses. However, during the 2 years ended December 31, 2013, the bank made only \$5,930 in debt payments even though the TDD bank account balance was over \$70,000 at December 31, 2013. The Board was not aware debt payments had not been made because it does not obtain or review bank statements, disbursement documentation, or financial statements.

Without adequate reviews of financial records, the TDD Board has less assurance the financial reports and transactions are proper and debt service payments are made.

1.2 Financial statements

The district's financial statements were not accurate or submitted to the SAO in a timely manner. The financial statements prepared for the years ended December 31, 2013 and 2012, (1) overstated revenues of the district by \$37,619, (2) understated disbursements by \$11,000, (3) did not include beginning or ending cash balances, and (4) were not submitted to the SAO until October 1, 2014, which is not in compliance with the filing deadlines established by state law.

Complete and accurate accounting records and financial statements are necessary to keep district officials and citizens informed of the financial activity and condition of the district. Section 105.145.2, RSMo, requires TDDs to file annual financial statements with the SAO. Section 105.145.8, RSMo, states any district that fails to timely submit a copy of the annual financial statement to the SAO shall be subject to a fine not to exceed \$500 per day. 15 CSR 40-3.030 provides if a political subdivision is audited by an independent auditor, a copy of the audit report can be filed in lieu of a separate financial report. An unaudited financial report is to be filed within 4 months of the entity's fiscal year end, while an audit report is to be filed within 6 months of the entity's fiscal year end.



Recommendations

The TDD Board:

- 1.1 Review and approve financial reports and transactions prepared by the bank and its accountant.
- 1.2 Ensure financial statements accurately reflect the financial activity of the district and are filed with the SAO timely.

Auditee's Response

The Chairman of the Board provided the following written responses:

- 1.1 *I agree. In the future, bank statements and financial reports will be reviewed monthly.*
- 1.2 *I agree. We will ensure in the future there is no confusion between Tax Increment Financing Economic Activity Tax reimbursements and the TDD revenue. We will ensure the financial statements are filed timely in the future.*

2. Board of Directors

The TDD property owners have not elected successor directors and the board has not met regularly in past years, and as a result, has not adopted annual budgets in accordance with state law. In addition, budgets which have been adopted do not contain some required elements.

2.1 Successor directors

The property owners have not met to elect successors for directors whose terms on the TDD Board have expired. When director terms expire, the remaining board members, instead of current property owners, vote to reappoint individual directors.

Section 238.220.2(3), RSMo, requires successor directors to be elected by the property owners and Section 238.202.2(2)(b), RSMo, allows votes of other qualified voters to be included with the property owners' votes.

2.2 Board meetings/budgets

The Board Chairman indicated the board did not meet in 2011 or 2012, and a 2014 meeting had not been held as of October 31, 2014. The Board Chairman indicated the board approved resolutions to adopt budgets for 2011 and 2012, even though meetings of the Board were not held. At the annual meeting in June 2013, a budget for the year ended December 31, 2013 was adopted per the board minutes. The district provided a summary of budgets for our review which included budget information for fiscal years 2009 through 2013 on one spreadsheet. It is unclear when this summary was prepared, as the budgeted revenue amounts shown for each year agreed to actual revenues reported in the district's financial statements. The Board Chairman could not provide the actual budgets approved by the board. In addition, the summary of budgets did not contain some elements required by state law. The budgets did not include a comparative statement of actual or



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Management Advisory Report - State Auditor's Findings

estimated revenues and expenditures for the preceding 2 years, or beginning and ending cash balances.

Sections 67.010 to 67.040, RSMo, include provisions regarding annual budgets. Board meetings, conducted at least annually, to review and approve the budget appear necessary for the Board to properly fulfill their duties as prescribed by state law.

Recommendations

- 2.1 The TDD property owners elect directors to serve on the board in accordance with state law.
- 2.2 The TDD Board conduct a meeting at least annually to properly fulfill their duties, including adopting annual budgets containing all elements required by state law.

Auditee's Response

The Chairman of the Board provided the following written responses:

- 2.1 *I agree. Minutes will reflect the correct vote procedure for Board membership in the future.*
- 2.2 *I agree. The 2014 Property Owners meeting is scheduled for December 29th; the TDD Board meeting will immediately follow the Property Owners meeting. I have invited the City of Lee's Summit Finance Director to attend and he has confirmed he will be there. We will ensure the 2015 budget is adopted timely and contains the information required by state law.*

Lee's Summit Missouri New Longview Transportation Development District Organization and Statistical Information

The Lee's Summit Missouri New Longview Transportation Development District (TDD) is located in the City of Lee's Summit. The TDD was organized in July 2003 by petition of the property owner/developer within the proposed TDD. The Board of Directors of the district are elected by the property owners and currently include two property owners and three members representing the property owners.

The qualified voters of the TDD, in this case the property owners, approved the imposition of a sales tax of up to 1-cent (1 percent) on all taxable transactions within the boundaries of the district. The Board of Directors subsequently passed a resolution in January 2006 that set the sales tax rate at 1-cent (1 percent), and the TDD started collecting sales tax in January 2006. The TDD expects the sales tax to remain in effect for 20 years, unless terminated sooner after all obligations have been paid.

The TDD was formed for the purpose of acquiring property (right-of-way and/or easements) and constructing transportation projects, with a total cost of approximately \$10.7 million. The City of Lee's Summit was the public entity with jurisdiction over these projects and accepted dedication of the completed projects.

Prior to January 1, 2012, the property owner/developer sold several portions of property within the TDD and as of October 31, 2014 there are five property owners.

The TDD has a fiscal year end of December 31, and did not have an independent audit performed of its financial statement during the two years ended December 31, 2013.

As of December 31, 2013 the district owed the developer approximately \$4.1 million for project costs advanced by the developer.

District Board

An elected board acts as the policy-making body for the district's operations. The board's five members serve 3-year terms without compensation. Members of the board at December 31, 2013, were:

G. David Gale, Chairman (1)
Jeanne Marshall, Member (2)
Jeffrey Smith, Member (1)
Hunter S. Gale, Member (2)
Matt Faulkner, Member (2)

(1) Property owner
(2) Property owner representative



Lee's Summit Missouri New Longview
Transportation Development District
Organization and Statistical Information

Financial Activity

A summary of the district's financial activity for the 2 years ended December 31, 2013, follows:

	<u>Year Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
RECEIPTS		
Sales taxes	\$ 40,756	41,870
Total Receipts	<u>40,756</u>	<u>41,870</u>
DISBURSEMENTS		
Professional fees	1,102	0
Debt service	0	5,930
Accounting and auditing	0	4,673
Total Disbursements	<u>1,102</u>	<u>10,603</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	39,654	31,267
BEGINNING CASH	<u>31,271</u>	<u>4</u>
ENDING CASH	<u>\$ 70,925</u>	<u>31,271</u>