



Office of Missouri State Auditor  
**Nicole Galloway, CPA**

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**Public Water Supply District #4 of  
Washington County**



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of Public Water Supply District #4 of Washington County

Policies and Procedures	The Board President was compensated for services performed while also serving on the Board, creating a conflict of interest. Other concerns with this arrangement and payment were noted. District ordinances do not address key areas such as bidding procedures, receipting and depositing procedures, delinquent accounts, billing procedures, late fees, and refunds. The Board has not adopted a formal policy regarding public access to district records.
Bidding Procedures	Bids or proposals were not solicited for the sewer tank repair and replacement project. In addition, the district does not have written bidding procedures.
Budgets	The district budget does not include all statutorily required elements.

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

\*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.

**All reports are available on our Web site: [auditor.mo.gov](http://auditor.mo.gov)**

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# Public Water Supply District #4 of Washington County

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## **NICOLE GALLOWAY, CPA**

### **Missouri State Auditor**

To the Board of Directors  
Public Water Supply District #4 of Washington County

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Public Water Supply District #4 of Washington County. We have audited certain operations of the district in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2016. The objectives of our audit were to:

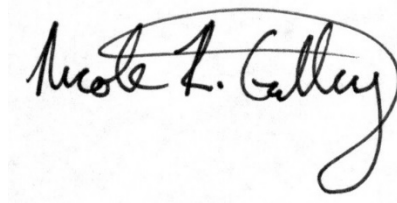
1. Evaluate the district's internal controls over significant management and financial functions.
2. Evaluate the district's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the district, as well as certain external parties; and testing selected transactions. 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 applicable 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 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) no significant 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 Public Water Supply District #4 of Washington County.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is written in a cursive style with a large, looping "G" at the end.

Nicole R. Galloway, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Regina Pruitt, CPA
Audit Manager:	Chris Vetter, CPA
In-Charge Auditor:	David Olson

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# Public Water Supply District #4 of Washington County

## Management Advisory Report

### State Auditor's Findings

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#### **1. Policies and Procedures**

The Board President was compensated for services performed while also serving on the Board, creating a conflict of interest. The district's ordinances are not complete and policies and procedures need improvement.

##### **1.1 Payments to Board President**

The Board President was compensated for services performed while also serving on the Board, creating a conflict of interest. The Board President was paid \$2,553 in November 2016 for supervising a sewer tank repair and replacement project costing approximately \$97,000. This payment violated Section 105.454, RSMo, because the Board President did not submit a bid for the services and the transaction exceeded \$500. The Board of Directors believed it would be less expensive to pay the Board President, who does not have any engineering experience, than hire a professional engineer to supervise the project. We also noted other concerns with this arrangement and payment.

- There was no documented, formal Board approval of the arrangement prior to the services being performed.
- There was no written agreement or documented expectations between the Board President and the Board for the services to be performed and compensation to be paid.
- The Board formed a committee after the services were provided to evaluate the Board President's performance and determine reasonable compensation.
- The Board did not maintain time records or other documentation to support services provided and hours worked, even though the Board Secretary stated the committee reviewed time records. The only documentation on file at the district to support the \$2,553 payment is a memo prepared by the district clerk summarizing events from June 2016 to November 2016. The Board President eventually provided us with a calendar documenting her hours worked after we held an exit conference on August 3, 2017, with the Board.
- Meeting minutes are not clear regarding which Board member abstained from voting on paying the Board President the \$2,553.

Board members serve in a fiduciary capacity. Personal interests by Board members, such as the Board President being paid \$2,553 to supervise a district project, in business matters of the district could create actual and the appearance of conflicts of interest. Sections 105.454 and 105.458, RSMo, prohibit financial transactions between the district and elected or appointed officials or employees that involve more than \$500 per transaction or \$5,000 per annum, unless there has been public notice to solicit proposals and



## Public Water Supply District #4 of Washington County Management Advisory Report - State Auditor's Findings

competitive bidding, provided the bid or offer accepted is the lowest received.

The Missouri Supreme Court has stated, "A public officer owes an undivided loyalty to the public whom he serves and he should not place himself in a position which will subject him to conflicting duties or expose him to the temptation of acting other than in the best interests of the public." *State ex rel. St. Louis County v. Kelly*, 377 S.W. 2d 328, 332 (Mo. 1964) (quoting 43 Am. Jur., Public Officers, § 266, p. 81). Personal interests in business matters of the district create actual or the appearance of conflicts of interest, and a lack of independence could harm public confidence in the Board and reduce its effectiveness.

### 1.2 Ordinances

District ordinances do not address key areas such as bidding procedures, receipting and depositing procedures, delinquent accounts, billing procedures, late fees, and refunds. District personnel could provide documentation for only 2 ordinances passed since the district formed in 2008.

Because ordinances passed by the Board to govern the district and its customers have the force and effect of law, it is important ordinances be complete.

### 1.3 Records policy and requests

The Board has not adopted a formal policy regarding public access to district records. A formal policy would establish guidelines for the district to make requested records available to the public and ensure any records requests are handled consistently and in compliance with state law. At a minimum, such a policy should identify a person to contact, provide an address to mail such requests, and establish fees that may be assessed for providing copies of public records.

Section 610.023, RSMo, lists requirements of making records available to the public, and Section 610.026, RSMo, allows the district to charge fees for providing access to and/or copies of public records and provides requirements related to fees. Section 610.028, RSMo, requires a written policy regarding release of information under the Sunshine Law.

## Recommendations

The Board of Directors:

- 1.1 Avoid transactions that represent actual conflicts of interest or the appearance of conflicts of interest.
- 1.2 Ensure district ordinances address all key areas and are maintained in a complete, up-to-date manner.
- 1.3 Develop written policies regarding public access to district records.



Public Water Supply District #4 of Washington County  
Management Advisory Report - State Auditor's Findings

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## Auditee's Response

- 1.1 *The Board agrees to avoid any transactions that could represent actual conflicts of interest or the appearance of conflicts of interest.*
- 1.2 *The Board agrees to retain the services of our CPA to help develop ordinances and to keep them up to date. These policies will include but not be limited to the process of collection of past due accounts.*
- 1.3 *The Board agrees to retain the services of our CPA to help develop written policies regarding public access to the district records.*

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## 2. Bidding Procedures

Bids or proposals were not solicited for the sewer tank repair and replacement project (discussed in MAR finding number 1.1). District officials provided documentation of one proposal totaling \$33,520 for the repair and replacement project, but eventually paid this contractor \$68,725. Records indicate more work was completed than originally anticipated. There were no other proposals solicited for the repair and replacement project. District officials also purchased \$27,900 in parts and materials related to the project from another vendor the district has previously used instead of soliciting bids. In addition, the district does not have written bidding procedures.

Formal bidding procedures for major purchases or services provide a framework for economic management of district resources and help ensure the district receives fair value by contracting with the lowest or best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in district business. Soliciting proposals for professional services is a good business practice, helps provide a range of possible choices, and allows the district to make better-informed decisions to ensure necessary services are obtained from the best qualified provider after taking expertise, experience, and cost into consideration. Documentation of the various proposals received, the selection process, and criteria should be retained to demonstrate compliance with applicable laws or regulations and support decisions made.

## Recommendation

The Board of Directors should solicit bids and proposals for all applicable goods and services. In addition, the Board should adopt ordinances addressing when bidding or solicitation of proposals is required.

## Auditee's Response

*On all future requests for goods and services, the Board will solicit bids and proposals. The Board will retain the services of our CPA to develop and adopt ordinances addressing when bidding or solicitation of proposals is required.*

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## 3. Budgets

The district budget does not include all statutorily required elements. The Board's approval of the 2016 and 2017 budgets is documented in the meeting minutes, but there is no actual budget document maintained.





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## Public Water Supply District #4 of Washington County Management Advisory Report - State Auditor's Findings

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Approved receipt and disbursement amounts are recorded in the electronic accounting records maintained by the contracted bookkeeper. However, there is no documentation of other elements statutorily required to be in the budget, such as a budget message or summary, the actual beginning and estimated ending cash balances, actual receipts and disbursements for the 2 preceding years, or district indebtedness.

Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and sets specific guidelines for the format. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of district operations. It also assists in setting tax levies and informing the public about district operations and current finances.

### Recommendation

The Board of Directors should ensure comprehensive annual budgets that contain all statutorily required elements are prepared and maintained.

### Auditee's Response

*The Board has prepared budgets in the past that were believed to meet the state requirements and submitted annually. Starting with the projected budget for 2018, the Board will retain the services of our CPA to develop and maintain budgets that meet the requirements of Section 67.010, RSMo.*

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# Public Water Supply District #4 of Washington County

## Organization and Statistical Information

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The Public Water Supply District #4 of Washington County was established in 2008 pursuant to Chapter 247, RSMo. The district maintains its own waste water treatment plant. The district services approximately 115 customers in the Holiday Shores subdivision near Bismarck. The district does not have any employees.

### Board of Directors

The five-member elected board of directors acts as the policy-making body for district operations. The board members serve 3-year terms. The Board President is paid \$150 per month and the Board Secretary is paid \$100 per month. The other board members receive no compensation. Members of the Board at December 31, 2016, were:

Susan Goeken, President  
Jesse Ogden, Secretary  
Connie Hedrick, Treasurer  
Ray Mayfield, Member  
Patty Carl, Member

### Other Principal Official

The district clerk is an appointed position. The clerk receives no compensation. At December 31, 2016, the clerk was John Steffen.

### Financing Arrangement

The Board entered into a United States Department of Agriculture Rural Development loan agreement totaling \$483,000 in February 2009 to finance the construction of the sewage treatment plant and related infrastructure. The loan agreement is scheduled to be paid off in 2044. The remaining principal outstanding at December 31, 2016, was \$432,802.

### Financial Activity

A summary of the district's financial activity for the year ended December 31, 2016, follows:

Public Water Supply District #4 of Washington County  
Schedule of Receipts, Disbursements, and Changes in Cash  
Year Ended December 31, 2016

	<u>General Fund</u>
RECEIPTS	
Sewer revenue	\$ 56,173
Interest income	145
Attorney reimbursement	500
Legal settlement	295,422
Gain on sale of assets	700
Miscellaneous	3,609
Total Receipts	<u>356,549</u>
DISBURSEMENTS	
Dues and subscriptions	154
Interest	18,615
Publication fees	50
Office expense	79
Accounting	3,930
Insurance	4,362
Postage	524
Bank charges	468
Printing	172
Utilities	960
Legal fees - collection	3,500
Legal fees - tanks	15,213
Repairs and maintenance	103,629
Locate fees	65
Recording fees	248
Internet	720
Mileage reimbursement	435
Board member fees	2,100
Miscellaneous	20,461
Total Disbursements	<u>175,685</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	180,864
CASH, JANUARY 1, 2016	18,577
CASH, DECEMBER 31, 2016	<u>\$ 199,441</u>