

The seal of the Missouri State Auditor is circular and features a central figure holding a scale and a sword. The text around the seal reads "SEAL OF THE STATE AUDITOR" at the top, "WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

**Nicole Galloway, CPA**

---

**Missouri State Auditor**

**Cornland Special Road District**

Report No. 2022-077

September 2022

[auditor.mo.gov](http://auditor.mo.gov)



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Cornland Special Road District

Services Performed By Commissioners	Commissioners received payments for providing road work for the district, creating an apparent conflict of interest. Additionally, the district did not report amounts paid to the Commissioners to the Internal Revenue Service.
Bidding Procedures and Written Agreements	The district does not have a formal bidding policy and bids or proposals were not solicited during the year ended December 31, 2021, for gravel costing approximately \$9,200 and rock hauling services costing approximately \$4,400. Also, the district did not enter into written agreements for road work, rock hauling, and administrative services.
Oversight and Segregation of Duties	The Board has not established adequate oversight or segregation of duties over the various financial accounting functions performed by the Secretary/Treasurer, and some district checks were signed only by the Secretary/Treasurer.
Sunshine Law	The Board does not always provide public notice of Board meetings, and agendas and meeting minutes are not prepared. Additionally, the Board has not adopted a written policy regarding public access to district records as required by state law.
Budgetary Procedures and Financial Reporting	The Board does not prepare annual budgets for district funds and does not file timely annual financial reports as required by state law.
Electronic Communication Policy	The district has not developed a records management and retention policy in compliance with the Missouri Secretary of State Records Services Division guidance, as approved by the Missouri Local Records Commission.

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.

---

# Cornland Special Road District

## Table of Contents

---

State Auditor's Report	2
------------------------	---

---

Introduction	
Scope and Methodology.....	3

---

Management Advisory	
Report - State Auditor's	
Findings	
1. Services Performed By Commissioners .....	4
2. Bidding Procedures and Written Agreements .....	6
3. Oversight and Segregation of Duties.....	7
4. Sunshine Law .....	7
5. Budgetary Procedures and Financial Reporting .....	9
6. Electronic Communication Policy.....	10

---

Organization and Statistical	
Information	11

---



## **NICOLE GALLOWAY, CPA**

### **Missouri State Auditor**

Board of Commissioners  
Cornland Special Road District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Cornland Special Road District. We have audited certain operations of the district in fulfillment of our duties. 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.

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, except as explained in the Scope and Methodology section of this report related to the refusal by the Board of Commissioners and the district's Secretary/Treasurer to provide certain written representations.

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 Cornland Special Road District.

A handwritten signature in black ink that reads "Nicole R. Galloway".

Nicole R. Galloway, CPA  
State Auditor

---

# Cornland Special Road District

## Introduction

---

### **Scope and Methodology**

The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2021.

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 performing sample testing using haphazard and judgmental selection, as appropriate. The results of our sample testing cannot be projected to the entire populations from which the test items were selected. We obtained an understanding of internal control that is significant to the audit objectives and planned and performed procedures to assess internal control to the extent necessary to address our audit objectives. 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.

The Board of Commissioners and the district's Secretary/Treasurer refused to provide certain written representations to our office as requested. While such management representations are not specifically required by Government Auditing Standards for performance audits, it is standard practice of the State Auditor's Office to require such representations be provided to help ensure adequate audit evidence has been obtained.

We asked the Board and Secretary/Treasurer to provide, among other things, the following written representations:

- "We have not knowingly withheld from you any records that in our judgment would be relevant to your audit."
- "We have no knowledge of any fraud or suspected fraud affecting the district and involving administrative officials; employees who have significant roles in internal control (e.g., processing transactions or safeguarding assets); or others."

Refusal to provide such representations is concerning and may indicate information potentially relevant to our audit was knowingly withheld from us by the Board and Secretary/Treasurer.

---

# Cornland Special Road District Management Advisory Report State Auditor's Findings

---

## **1. Services Performed By Commissioners**

Commissioners received payments for providing road work for the district, creating an apparent conflict of interest. Additionally, the district did not report amounts paid to the Commissioners to the Internal Revenue Service (IRS).

During the year ended December 31, 2021, the district made payments for road repair and maintenance services to 2 Commissioners as follows: 3 payments<sup>1</sup> (each exceeding \$500) totaling \$3,015 to Commissioner Hill, and 3 payments (each exceeding \$500) totaling \$1,820 to Commissioner Dirks. Additionally, in January 2022 the district made payments to the Commissioners for road work as follows: 1 payment totaling \$1,140 to Commissioner Hill, and 1 payment totaling \$683 to Commissioner Dirks. The payments made by the district were for hours worked at hourly rates ranging from \$45 to \$65, according to invoices maintained by the district. In February 2022, the district submitted most of these disbursements for reimbursement on a Federal Emergency Management Agency (FEMA) grant obtained for road repairs for damage caused by flooding in 2019. The district also made payments totaling \$2,545 to Commissioner Dirks for road work services in 2019 and 2020, and requested and received reimbursement for these disbursements from the FEMA grant in 2021.

### 1.1 Conflicts of interest

Commissioners receiving payments for road work services while also serving on the Board creates an apparent conflict of interest. The district solicited proposals for road repair services in 2020, but according to a Commissioner, the district received only verbal quotes from individuals offering to operate equipment purchased or rented by the district, which were rejected by the district due to the high hourly rates and lack of equipment. The district then contacted a local vendor for an estimate, but the district rejected the estimate received.<sup>2</sup> The estimate was considered too high and the district subsequently spent \$8,854 with a different vendor<sup>3</sup> to repair a portion of the roads in 2020. According to a Commissioner, the district used this vendor for the most significant repair work, and Commissioners Hill and Dirks (and a business owned by a family member of Commissioner Anderson for which he had no financial interest<sup>4</sup>) have been performing much of the remaining repair work.

---

<sup>1</sup> One of these payments, totaling \$1,040, included billings for road work services costing \$440, according to the invoice, that were performed before Commissioner Hill became district commissioner in April 2021.

<sup>2</sup> The estimated cost submitted by the vendor totaled approximately \$235,000 to completely repair the district's roads.

<sup>3</sup> According to a Commissioner, the district contacted this vendor for an estimate based on discussions with a State Emergency Management Agency (SEMA) official.

<sup>4</sup> The district made one payment totaling \$2,380 in January 2022 for road work services to this business. Commissioner Anderson indicated he abstained from voting on the decision to award road work to his family member's company, but the vote occurred in an informal meeting of the Board in 2021 for which no meeting minutes were maintained.



---

Cornland Special Road District  
Management Advisory Report - State Auditor's Findings

---

A Commissioner indicated other vendors have been utilized for various road repair and maintenance services in previous years but those entities either became too expensive or were no longer willing to perform the services for the district. The district maintained no documented, formal Board approval of the arrangements for the services performed by the Commissioners prior to the services being performed.<sup>5</sup>

Commissioners serve in a fiduciary capacity and have an obligation to the public to avoid apparent conflicts of interest. Personal interests in business matters of the district could create an actual or apparent conflict of interest, and a lack of independence could harm public confidence in the Board and reduce its effectiveness. Section 105.454, RSMo, prohibits elected officials and employees serving in an executive or administrative capacity from performing any service for compensation, other than compensation for the performance of their duties, that involve more than \$500 per transaction or \$5,000 per annum, unless there has been public notice to solicit proposals and competitive bidding, provided the bid or offer accepted is the lowest received. Section 105.458, RSMo, prohibits district commissioners from receiving such compensation without competitive bidding. Additionally, under the terms of the FEMA award, the district is required to comply with 2 CFR Section 200.318 that requires the district maintain written standards of conduct covering conflicts of interest and prohibits any officer or agent of the district from participating in the "selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest."

## 1.2 1099 forms

The district does not have a procedure in place to prepare and file 1099 forms with the IRS as required. The district did not prepare and file 1099 forms with the IRS for payments made to the Commissioners for the year ended December 31, 2021. The Commissioners and Secretary/Treasurer were unaware of the requirement to file these forms.

Sections 6041 through 6050W 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 1099 forms.

## Recommendations

The Board of Commissioners:

- 1.1 Avoid transactions that represent actual conflicts of interest or apparent conflicts of interest.

---

<sup>5</sup> Commissioner Anderson indicated the other commissioners abstained from the Board votes approving payments to themselves, but the district did not maintain documentation of those votes as noted in Management Advisory Report (MAR) finding number 4.1.



Cornland Special Road District  
Management Advisory Report - State Auditor's Findings

- 1.2 Prepare and file 1099 forms with the IRS as required, and file amended 1099 forms for previous years.

**Auditee's Response**

*The Board of Commissioners did not provide a response.*

**2. Bidding Procedures and Written Agreements**

The district does not have a formal bidding policy and bids or proposals were not solicited during the year ended December 31, 2021, for gravel costing approximately \$9,200 and rock hauling services costing approximately \$4,400. Also, the district did not enter into written agreements for road work, rock hauling, and administrative services. During the year ended December 31, 2021, district expenditures totaled \$23,978.

According to a Commissioner, bids/proposals were not solicited for gravel and rock hauling services because the district has only one local quarry for gravel and only a few vendors available for rock hauling. However, the district did not maintain documentation of efforts taken to identify and select vendors. In addition, the district did not solicit bids for payments for road work performed by 2 of the commissioners and the business owned by a family member of the third commissioner, as noted in MAR finding number 1.1, or obtain written agreements for those services. Most of the disbursements for gravel, rock hauling, and road work related to the district's road repair projects to be reimbursed through the FEMA grant. Additionally, the district did not obtain written agreements for rock hauling services, and for administrative services related to the FEMA grant provided by Commissioner Anderson.<sup>6</sup> According to a Commissioner, the Commission was unaware of the need for written agreements.

The FEMA grant requires the district to have a documented procurement policy that complies with applicable federal, state, and local regulations, and publicly solicit competitive bids. 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. Formal bidding procedures should be sufficiently detailed and include requirements for documenting the process of awarding a bid.

Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

<sup>6</sup> Commissioner Anderson indicated he intends to seek reimbursement for his time spent performing administrative tasks for the FEMA grant, but he has not submitted a billing to either the district or FEMA as of May 2022.





---

## Recommendation

The Board of Commissioners establish formal bidding policies and procedures, solicit bids for goods and periodically solicit proposals for services, and ensure the solicitation for bids and proposals and the evaluation and selection of vendors is documented. In addition, enter into written contracts for services received.

## Auditee's Response

*The Board of Commissioners did not provide a response.*

---

### 3. Oversight and Segregation of Duties

The Board has not established adequate oversight or segregation of duties over the various financial accounting functions performed by the Secretary/Treasurer.

The Secretary/Treasurer is responsible for the record-keeping duties of the district including receipting, posting transactions into the accounting system, preparing invoices for payment, preparing and distributing checks, preparing monthly bank reconciliations, and preparing financial statements. Commissioner Anderson, the husband of the Secretary/Treasurer, indicated he assists the Secretary/Treasurer with those duties as necessary. In addition, while the Commissioners indicated checks are reviewed and signed by Commissioner Dirks after preparation and signature by the Secretary/Treasurer, 4 of 22 checks issued during the year ended December 31, 2021, were signed only by the Secretary/Treasurer. According to a Commissioner, lack of Board oversight caused the checks to be issued without dual signatures.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, documented independent or supervisory reviews of accounting and bank records should be performed. Good management practices require extensive and detailed oversight by the Board. Dual authorized signatures help provide assurance that checks represent payment for legitimate district disbursements. Failure to require dual signatures on all checks is a significant control weakness and could allow for improper checks and overpayments to occur.

## Recommendation

The Board of Commissioners segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures. In addition, the Board should require dual signatures on all checks.

## Auditee's Response

*The Board of Commissioners did not provide a response.*

---

### 4. Sunshine Law

The Board does not always comply with the Sunshine Law.

#### 4.1 Board meetings

The Board does not always provide public notice of Board meetings, and agendas and meeting minutes are not prepared. According to a Commissioner,



---

Cornland Special Road District  
Management Advisory Report - State Auditor's Findings

---

the Board only held one public meeting during the year ended December 31, 2021. However, no agenda or minutes were maintained for this meeting. In addition, a Commissioner indicated the Board met informally at other times during the year to discuss and vote on Board business and public notice was not provided for those meetings and no agendas or minutes were prepared. Additionally, no minutes were prepared for the public meeting held in March 2022. According to a Commissioner, the Board believes only one annual public meeting is generally needed and minutes are unnecessary because the Board provides letters to district residents periodically with information about the status of district activities and finances.

Section 610.010(5), RSMo, defines a public meeting as any meeting of a public governmental body at which any public business is discussed, decided, or public policy formulated. Section 610.020.1, RSMo, requires public entities to give notice of the time, date, and place of each meeting, and its tentative agenda to advise the public of matters to be considered. Section 610.020.7, RSMo, requires meeting minutes be maintained as a record of business conducted and to provide an official record of Board actions and decisions.

#### 4.2 Public access policy

The Board has not adopted a written policy regarding public access to district records as required by state law. A written policy regarding public access to district records would establish guidelines for the district to make records available to the public. Such policies typically 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. According to a Commissioner, the Board was unaware a written policy was required.

Section 610.023, RSMo, lists requirements for making records available to the public. 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 Commissioners:

- 4.1 Ensure notices and agendas are provided to advise the public of district meetings, and maintain minutes for all meetings.
- 4.2 Develop a written public access policy for district records.

### Auditee's Response

*The Board of Commissioners did not provide a response.*



---

## 5. Budgetary Procedures and Financial Reporting

The Board does not prepare annual budgets for district funds or submit annual financial reports as required by state law.

### 5.1 Budgets

The Board does not prepare annual budgets for district funds as required by state law. A Commissioner indicated the Board informally allocates about one-half of the district's typical revenues for rock purchases and one-half for hauling, grading, and administrative expenses, but the Board did not believe a formal budget was needed.

Section 67.010, RSMo, requires the budget to present a complete and accurate financial plan for the ensuing budget year and outlines the various information to be included in the budget. 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 informing the public about district operations and current finances.

### 5.2 Filing of financial reports

The Board does not file timely annual financial reports with the State Auditor's Office (SAO) as required by state law. The district's financial report for the year ended December 31, 2021, due by June 30, 2022, was not filed until July 25, 2022. The district's financial report for the year ended December 31, 2020, due by June 30, 2021, was not filed until August 4, 2021. The district's financial report for the year ended December 31, 2019, due by June 30, 2020, was not filed until August 21, 2020. Also, no financial report was filed with the SAO for the year ended December 31, 2018. In addition, the financial report filed for 2021 did not include the property tax levies as required by state regulation. According to a Commissioner, other personal obligations prevented him from filing complete and timely financial reports.

Section 105.145, RSMo, requires each political subdivision to file annual reports of its financial transactions with the SAO. Section 105.145.5, RSMo, prohibits members of the governing body from receiving compensation or payment of expenses after the deadline to submit the financial statement and until the financial statement is submitted to the SAO. Section 105.145.9, RSMo, subjects political subdivisions to a fine of \$500 per day for missing filing deadlines. In addition, 15 Code of State Regulations (CSR) 40-3.030, requires each political subdivision to file annual financial reports within 6 months of the end of the subdivision's fiscal year.



Cornland Special Road District  
Management Advisory Report - State Auditor's Findings

---

## Recommendations

The Board of Commissioners:

- 5.1 Prepare annual budgets that contain all information required by state law.
- 5.2 Submit annual financial reports to the State Auditor's Office as required by state law.

## Auditee's Response

*The Board of Commissioners did not provide a response.*

---

## 6. Electronic Communication Policy

The district has not developed a records management and retention policy in compliance with the Missouri Secretary of State Records Services Division guidance, as approved by the Missouri Local Records Commission. This guidance recommends government entities have a policy on electronic messaging, including text messages, email, and other third party platforms.

Section 109.270, RSMo, provides that all records made or received by an official in the course of his/her public duties are public property and are not to be disposed of except as provided by law. Section 109.255, RSMo, provides that the Local Records Board issue directives for the destruction of records. The guidelines for managing electronic communications records can be found on the Secretary of State's website.<sup>7</sup>

Development of a written policy to address the use of electronic communications is necessary to ensure all documentation of official business of the district is retained as required by state law. According to a Commissioner, the Board was unaware of the record retention requirements and the electronic communications guidelines.

## Recommendation

The Board of Commissioners develop a written records management and retention policy to address electronic communications management and retention to comply with Missouri Secretary of State Records Services Division electronic communications guidelines.

## Auditee's Response

*The Board of Commissioners did not provide a response.*

---

<sup>7</sup> Missouri Secretary of State Records Services Division, *Electronic Communications Records Guidelines for Missouri Government*, May 14, 2019, is available at <<https://www.sos.mo.gov/CMSImages/LocalRecords/CommunicationsGuidelines.pdf>>, accessed July 18, 2022.

---

# Cornland Special Road District

## Organization and Statistical Information

---

The Cornland Special Road District was incorporated in 1945 and organized under Sections 233.320 through 233.445, RSMo. The district is responsible for approximately 12 miles of gravel roads outside the city of Butler in Bates County, Missouri.

The Board of Commissioners consists of three commissioners who serve 3-year terms. The commissioners elect a President of the board and appoint an individual to serve as the Secretary/Treasurer. The commissioners and Secretary/Treasurer serve without compensation. The Board of Commissioners, at December 31, 2021, are identified below.

### Board of Commissioners

Name and Title	Dates of Service
Elston Dirks, President	2013 to current
Gary Anderson, Member	2016 to current
Don Hill, Member	2021 to current

### Secretary/Treasurer

Annette Anderson has served as the district's Secretary/Treasurer since her appointment to the position in 2005.

### Disaster Assistance

In July 2020, the Federal Emergency Management Agency (FEMA) and the Department of Public Safety - State Emergency Management Agency (SEMA) awarded disaster assistance funding up to a maximum of \$129,682 for repairs to district roads that were damaged by flooding in 2019. The district is responsible for completing the repairs in accordance with state and federal requirements. The federal, state, and district share of the actual project costs are 75, 10, and 15 percent, respectively. Under the disaster assistance program, the SEMA will reimburse the district throughout the project for a portion of the state and federal share of the costs incurred and paid by the district; and upon project completion, inspection, and approval by FEMA and SEMA, the SEMA will reimburse the district for the remaining federal and state share of actual expenses.

In January 2021, the district submitted to SEMA a reimbursement claim for expenditures paid through November 2020 totaling \$30,048, and received reimbursement totaling \$16,902 in March 2021. In February 2022, the district submitted a second reimbursement claim totaling \$21,565 for expenditures from December 2020 through January 2022 and the district had not received any reimbursement on this claim as of June 2022. In its progress status report to SEMA as of March 31, 2022, the district indicated the completion percentage of repairs to the 15 damaged road sites ranged from 0 to 75 percent, and estimated the project completion date to be June 9, 2022, and indicated this was dependent upon SEMA paying the previous reimbursement claim.

According to district officials, road repair work was not completed as of June 2022 and the SEMA indicated the district will not receive reimbursement on



Cornland Special Road District  
Organization and Statistical Information

---

the second reimbursement claim until after July 1, 2022. The FEMA also awarded the district funding for actual administrative costs (100 percent federal share) up to a maximum of \$6,484 reimbursable only upon project completion.

In June 2020, the district requested donations totaling \$20,200 from district property owners to help fund the road repairs. The district determined each property owner's proportionate share of the donation total based upon the relative productive agricultural value of each property. As of February 2022, the district had only received \$4,170 in donations.

## Financial Activity

For comparative purposes, a summary of the district's financial activity obtained from the district's general ledger and annual financial statements for the years ended December 31, 2021, 2020, and 2019, follows.

Cornland Special Road District  
 Comparative Statement of Receipts, Disbursements, and Changes in Cash  
 3 Years Ended December 31, 2021

	Year Ended December 31,		
	2021	2020	2019
<b>RECEIPTS</b>			
County Aid Road Trust Fund	\$ 4,269	9,229	4,520
Property taxes	4,298	3,553	4,332
Culvert sales	740	0	0
Donations	750	3,420	0
Loan	0	1,858	0
FEMA/SEMA reimbursement	16,910	0	0
Total Receipts	<u>26,967</u>	<u>18,060</u>	<u>8,852</u>
<b>DISBURSEMENTS</b>			
Gravel and hauling	13,615	9,703	9,496
Grading	4,835	11,344	3,740
Insurance	1,200	0	0
Loan repayment	1,858	0	0
Culvert purchases	2,440	0	0
Other	30	271	90
Total Disbursements	<u>23,978</u>	<u>21,318</u>	<u>13,326</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	2,989	(3,258)	(4,474)
CASH, January 1	<u>131</u>	<u>3,389</u>	<u>7,863</u>
CASH, December 31	<u>\$ 3,120</u>	<u>131</u>	<u>3,389</u>