



PUBLIC WATER SUPPLY DISTRICT NUMBER 16

JACKSON COUNTY, MISSOURI

YEAR ENDED DECEMBER 31, 2000

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

Report No. 2001-26  
March 27, 2001  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

March 2001

[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

**Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the Public Water Supply District Number 16, Jackson County, Missouri.**

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The Public Water Supply District #16 has a significant amount of debt and has not adequately funded the reserve accounts associated with a United States Department of Agriculture (USDA) loan. In 1996, the district formed the Jackson County Water Company, a not-for-profit organization, to obtain a \$5,000,000 loan from Rural Development, USDA. The proceeds of the loan and \$480,000 in lease participation certificates were used by the Jackson County Water Company to retire the district's outstanding Series 1991 and 1992 bonds. The district leases all of its assets to the Jackson County Water Company which leases them back to the district for an amount equal to the loan payments, required reserve account payments and other required payments. Apparently due to financial difficulties, the district has failed to make all the required payments.

The district owes approximately \$85,000 to two vendors for past billings and \$130,500 to the Jackson County Water Company to fully fund reserve accounts associated with a USDA loan. The district has not developed a plan to repay these debts and only had a cash balance at December 31, 2000, of approximately \$5,100.

The Board of Directors was not adequately monitoring the financial condition and expenditures of the district. District revenues received during 1999 and 2000 were not sufficient to cover current operating expenditures (including loan payments) of the district. Although the board took steps to reduce expenditures, including eliminating the manager position, the district remains in poor financial condition.

Since 1994 the district has contracted with a company owned by the spouse of current board member Robert K. Clifton to read meters. During 1999, the company was paid \$8,261. On occasions when the contract with the company was discussed, the board minutes indicate that Robert K. Clifton was either not present or did not vote. However, the service was not competitively bid. At the January 2000 board meeting, the board rejected a lower unsolicited bid from another party to read meters.

Also, payments were made to three children of current board member Geral Rinacke during 1994 and 1995, while he served as board president. A daughter was employed by the district as a clerk and two sons were contracted to read meters and pressure test water lines. No documentation was available to determine whether Geral Rinacke voted to hire his relatives. The Missouri Constitution prohibits the appointment or hiring of relatives.

(over)

YELLOW SHEET

In addition, the district purchased a truck in 1994, from current board member Geral Rinacke, while he served as board president, for \$3,500, without seeking bids.

These payments represent potential violations of state law. Prior to 1998, state law prohibited financial transactions between a political subdivision and an officer or employee of that political subdivision that involved more than \$500 per year unless there had been public notice to solicit proposals and competitive bidding, provided that the bid or offer was the lowest received. In 1998, this threshold was changed to \$500 per transaction or \$1,500 per year. In addition, the appointment or hiring of a relative by a public official is prohibited by the Missouri Constitution. Because the serious consequence of forfeiture of elected office or position can result by hiring a relative, the circumstances surrounding the hiring of a district official's relative should be fully documented.

During 1999, the district's former manager was paid \$1,854 for unused 1998 vacation leave and \$1,910 for unused 1999 vacation leave. According to the former manager, any leave days he had taken during 1998 and 1999 were compensatory time for overtime earned, so no vacation leave had been used and he was entitled to full compensation of his vacation leave. Because the former manager did not prepare time sheets, there is no record to document that he worked any overtime, earned compensatory time, or did not take any vacation leave.

The district does not have a formal bidding policy. Supporting documentation was not maintained or did not include sufficient detail for some expenditures. Some expenditures did not appear to be necessary costs of operating the district. Checks were being issued prior to expenditures being incurred.

The board minutes and meeting agendas normally did not document the specific reason to go into a closed session.

In addition, formal written minutes are not maintained for closed meetings. Although minutes for closed meetings are not specifically required by law, minutes constitute a record of proceedings of the Board of Directors. Formal written minutes for closed meetings result in a better record of district transactions, proceedings, and decisions.

Board minutes of the open meetings do not always include sufficient detail of matters discussed and actions taken. For example, the district received an unsolicited bid for reading water meters, but the minutes did not include any discussion of the bid or the reason for rejecting it.

The district does not prepare annual budgets in accordance with state law and the Board did not approve them. Annual financial reports were not submitted to the State Auditor's office as required by state law.

PUBLIC WATER SUPPLY DISTRICT NUMBER 16  
JACKSON COUNTY, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT .....	1-2
HISTORY AND ORGANIZATION .....	3-4
MANAGEMENT ADVISORY REPORT .....	5-20
SUMMARY OF FINDINGS .....	6-7

<u>Number</u>	<u>Description</u>	
1.	Financial Condition .....	8
2.	Loan Agreement.....	8
3.	Expenditures .....	10
4.	Accounting Controls and Procedures.....	13
5.	Related Party Transactions.....	15
6.	Personnel Policies and Procedures.....	16
7.	Board Minutes .....	17
8.	Budgets and Financial Reporting.....	18
9.	Fixed Asset and Supply Records and Procedures .....	19



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

To the Board of Directors  
Public Water Supply District Number 16  
Jackson County  
Sibley, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit Public Water Supply District Number 16, Jackson County, Missouri. The public water supply district had engaged Schmidt & Company, Certified Public Accountants (CPA), to perform a financial audit of the district for the year ended December 31, 2000. The same firm was engaged to perform a financial audit of the Jackson County Water Company, a related entity, for the year ended December 31, 2000. To minimize any duplication of effort, we reviewed the substantiating working papers of the CPA for both the district and Jackson County Water Company. Our audit of the district included, but was not limited to, the year ended December 31, 2000. The objectives of this audit were to:

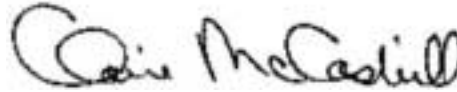
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, district policies, and various district financial records.

Our audit was limited to the specific matters discussed above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in the audit of the district.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the district and was not subjected to auditing procedures applied in the audit of the district.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of Public Water District Number 16, Jackson County, Missouri.



Claire McCaskill  
State Auditor

January 5, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	Todd M. Schuler, CPA
Audit In-Charge:	Lori Bryant
Audit Staff:	Cynthia L. Freeman

## HISTORY AND ORGANIZATION

PUBLIC WATER SUPPLY DISTRICT NUMBER 16  
 JACKSON COUNTY, MISSOURI  
 HISTORY AND ORGANIZATION

Public Water Supply District Number 16, Jackson County, Missouri, was established in 1969 and currently serves approximately 1,100 customers. The Board of Directors consists of five members who serve three-year terms. The Board of Directors elects a President and Vice President from the board membership.

In 1996, the district formed the Jackson County Water Company, a not-for-profit (NFP) entity created to obtain a loan from the United States Department of Agriculture (USDA). The proceeds of the \$5 million loan, and \$480,000 in lease participation certificates, were used to retire the district's outsta series 1991 and 1992 bonds.

The Water District board members and other officials at December 31, 2000 were:

<u>Board Members</u>	<u>Term Expires</u>	<u>Surety Bond</u>	<u>Compensation for the Year Ended December 31, 2000</u>
James Rogers, Board President	April, 2003	10,000	\$ 0
Jack Graves, Vice President	April, 2002	10,000	0
Robert K. Clifton, Board Member	April, 2001	10,000	0
Glenn Bowerman, Board Member	April, 2001	10,000	0
Geral Rinacke, Board Member	April, 2003	10,000	0
<u>Other Officials (1)</u>			
Steve Fortney, Superintendent			16,333
Janet Mershon, Clerk		10,000	19,842

(1) The district's manager position was eliminated in August 2000. This position had been held by Robert Long until his termination, and he was paid \$49,594 and \$32,946 during 1999 and 2000, respectively. Long also received \$12,000 and \$7,000 during 1999 and 2000, respectively in management fees from the Jackson County Water Company funded by transfers of \$1,000 a month from the district.

MANAGEMENT ADVISORY REPORT

PUBLIC WATER SUPPLY DISTRICT NUMBER 16  
JACKSON COUNTY, MISSOURI  
SUMMARY OF FINDINGS

1. Financial Condition (page 8)

The district owes approximately \$85,000 to two vendors for past billings and \$130,500 to the Jackson County Water Company to fully fund reserve accounts associated with the US Department of Agriculture loan. The district has not developed a plan to repay these debts and only had a cash balance at December 31, 2000, of approximately \$5,100.

2. Loan Agreement (pages 8-10)

The district has not been transferring adequate funds to the Jackson County Water Company as required by the loan agreement with the US Department of Agriculture. It appears the district's former manager was not bonded, as required by the loan agreement.

3. Expenditures (pages 10-13)

The district does not have a formal bidding policy. Supporting documentation was not maintained or did not include sufficient detail for some expenditures. Some expenditures did not appear to be necessary costs of operating the district. Checks were being issued prior to the expenditure being incurred. Incorrect amounts were reported on 1099-Misc forms for two vendors. Usage and maintenance logs for district vehicles were not prepared. Personal use of a district truck was not reported as additional compensation.

4. Accounting Controls and Procedures (pages 13-15)

Prior to April 2000, the board did not review invoices prior to approving expenditures for payment and a list of approved expenditures was not included in the board minutes. District policy requires two signatures only on checks over \$500, not on all checks as required by state law. The board should adopt procedures for independent reviews of billings, collections, and delinquent accounts.

5. Related Party Transactions (pages 15-16)

From 1994 to the current date, the district paid a company owned by the spouse of a board member to read meters without the service being competitively bid. Several relatives of a board member were paid for various services and in 1994, the district purchased a truck from a board member without getting bids.

6. Personnel Policies and Procedures (pages 16-17)

Unused vacation leave was paid without supporting documentation. Wages paid by the Jackson County Water Company were reported on a 1099-Misc form rather than on a W-2 form.

7. Board Minutes (pages 17-18)

The board minutes and tentative agendas do not normally specify the reason for closing the meeting. Formal written minutes are not maintained for closed meetings. Board minutes of open meetings do not always include sufficient detail of matters discussed.

8. Budgets and Financial Reporting (page 18)

The district does not prepare annual budgets in accordance with state law and the board did not approve them. Annual financial reports were not submitted to the State Auditor's office as required by state law.

9. Fixed Asset and Supply Records and Procedures (pages 19-20)

The district has not established formal policies and procedures for fixed assets. Fixed assets are not properly tagged. The district does not have a perpetual inventory of maintenance supplies.

PUBLIC WATER SUPPLY DISTRICT NUMBER 16  
JACKSON COUNTY, MISSOURI  
MANAGEMENT ADVISORY REPORT

**1. Financial Condition**

The district has a significant amount of debt and has not adequately funded the reserve accounts associated with the USDA loan. As of December 31, 2000, the district owes approximately \$73,000 to its attorney for legal services and approximately \$12,000 to the city of Kansas City, Missouri for past due water bills. In addition, \$130,500 is due to the Jackson County Water Company (JCWC) to fully fund reserve accounts. (See MAR No. 2.) The district's cash balance at December 31, 2000 was only \$5,100.

The Board of Directors was not adequately monitoring the financial condition and expenditures of the district. District revenues received during 1999 and 2000 were not sufficient to cover current operating expenditures (including loan payments) of the district. Although the board took steps to reduce expenditures, including eliminating the manager position, the district remains in poor financial condition.

The Board of Directors should continue to review district finances to reduce any discretionary expenditures and ensure water rates are sufficient to fund necessary district operating costs and debt payments. These plans should be formalized in a detailed annual budget which addresses the district's plan to reduce debts and improve its financial condition. In addition, the board should ensure an effective system of accounting and administrative controls are in place.

The specific recommendations contained in the following MARs, if implemented, will help establish needed records, controls, and procedures. The weaknesses noted throughout our report must be corrected to achieve the required level of accountability, and to more effectively use the district's resources.

**WE RECOMMEND** the Board of Directors review water rates and prepare a budget to include repayment of debt and improve the financial condition of the district.

**AUDITEE'S RESPONSE**

*The District is currently reviewing water rates and will be amending the 2001 budget to address the issues noted above.*

**2. Loan Agreement**

In 1996, the district formed the Jackson County Water Company (JCWC), a not-for-profit organization, to obtain a \$5,000,000 loan from Rural Development, USDA. The proceeds of

the loan and \$480,000 in lease participation certificates were used by the JCWC to retire the district's outstanding Series 1991 and 1992 bonds. The district leases all of its assets to the JCWC which leases them back to the district for an amount equal to the loan payments, required reserve account payments, and other required payments. Apparently due to financial difficulties, the district has failed to make all the required payments.

- A.1. The loan agreement requires one of the reserve accounts, the Reserve Fund, to be funded by a monthly transfer of \$2,000 until the balance reaches \$324,000. These funds shall be expended only to prevent any default in the payment of interest on or principal of the USDA obligation. The balance in this fund was only \$17,500, and as a result, \$88,500 was due to this fund, as of December 31, 2000.
2. The loan agreement requires another reserve account, the Renewal, Replacement, Depreciation, and Extension Fund, to be funded by a monthly transfer of \$1,000. These funds shall first be used to make up any deficiencies in the Debt Service on the USDA obligation or the Reserve Fund. Thereafter, monies may be withdrawn to purchase, replace, or construct any personal or real property that will constitute additional facilities. The balance in this fund was only \$11,000, and as a result, \$42,000 was due to this fund, as of December 31, 2000.

The failure of the district to adequately maintain the required reserve accounts could allow the USDA to take legal action to force compliance or immediate payment of the outstanding obligation.

- B. The USDA loan agreement requires that all officers and employees of the JCWC and the district be bonded in each fiscal year in an amount not less than the total amount of the principal and interest due for the current year, which was \$324,000 in 2000. JCWC has a commercial blanket bond for only \$300,000; and the policy has a provision to exclude from coverage any employee that had committed any fraudulent or dishonest act, whether committed before or after the date of employment by insured, if any officer of the insured had knowledge of such acts. The district's former manager was convicted of bank fraud in 1993 and a current board member indicates that the district's board knew of the manager's past when he was hired. Therefore, it appears the former manager would not have been covered by the blanket bond.

**WE RECOMMEND** the Board of Directors:

- A. Transfer \$130,500 owed to the JCWC at December 31, 2000, and ensure the proper amounts are transferred monthly in the future.
- B. Ensure all employees and officials are adequately bonded.

## AUDITEE'S RESPONSE

- A. *The District is currently transferring an additional amount, over the required amount, to the Reserve Fund and plans to begin paying more than the required amount to the Renewal, Replacement, Depreciation and Extension Fund. The district will ensure the required monthly payments to both reserve accounts are made in the future.*
- B. *The District will review the bond coverage and consider raising the amount of coverage and will ensure all employees and officials are bonded.*

<b>3. Expenditures</b>
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- A. The district does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Bids were either not solicited or bid documentation was not retained for setting meters, line extensions, and emergency repairs (\$104,581 to one vendor in 1999), reading meters (\$8,261 to one vendor in 1999), bobcat and dump truck use (\$7,323 to one vendor in 1999), and the leasing of two trucks in December 1998 and a replacement truck in January 2000.

Formal bidding procedures for major purchases provide a framework for economical management of district resources and help ensure the district receives fair value by contracting with the lowest and best bidder. Competitive bidding also helps ensure all parties are given 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 the bid or proposal was selected.

- B. The district did not solicit requests for proposals for engineering services related to a geographic information system mapping and hydraulic modeling project or for legal services. The total amount paid for professional services during 1999 was \$43,066. Without requesting proposals for professional services, the district has less assurance it has received quality services at a fair price.
- C. Some payments did not include adequate supporting documentation or did not contain sufficient detail of the services provided.
  - 1. Payments made for credit card purchases were generally supported by the credit card statement, but not the individual credit card slips or supporting invoices. These expenditures included \$840 in hotel charges for two trips during 1999 and \$160 to a retailer of fishing and hunting gear. We obtained a copy of the detailed bill from the hotel for one of the trips taken by the district's former manager in 1999. The total charge for this bill was \$587, consisting of \$309 for 4 nights room charges, \$94 in phone charges, \$19 for in-room movies, and \$165 from the hotel's lounge. The program for the

conference indicated that registration was to begin on the morning of March 9, 1999 and the last scheduled activity was a banquet on the evening of March 11, but the hotel bill also included a room for the night of March 12, which was charged at a higher rate than the room rate for attendees of the conference. The in-room movies, the hotel lounge charges, and extra night room charges directly benefited the employee but not the district, and do not appear to be prudent uses of public funds. In addition, the board has not adopted written policies for travel expenses which would provide guidelines for allowable expenditures while traveling on district business.

2. There was \$473 in charges from restaurants from January 1999 to July 2000, ranging from \$20 to over \$110. The invoices and other supporting documentation for these meal charges did not generally identify the business purpose of the meal or the names of those individuals provided meals.
3. Invoices submitted since June 1999 for legal services by one of the district's attorneys did include an itemized listing of the work performed; however, the hours billed for each task and the hourly rate charged was not indicated. A total of \$27,914 was billed to the district for work done by the attorney since June 1999. In addition, invoices for bobcat and dump truck use and for setting meters after August 1999 did not indicate the work site addresses.

To ensure the validity and propriety of the expenditures approved for payment, all expenditures should be supported by paid receipts or vendor invoices which provide sufficient detail of goods or services being billed to ensure the obligations were actually incurred and the expenditures represent appropriate uses of public funds.

- D. Some expenditures did not appear to be prudent or necessary uses of public funds. These included health insurance premiums for employees' dependents and subscriptions to an internet provider for the former district manager's home computer.

These expenditures do not appear to be necessary costs of operating the district and constitute a questionable use of public funds.

The district's residents have placed a fiduciary trust in its public officials to expend monies in a necessary and prudent manner. Considering the financial condition of the district, the Board of Directors should seriously evaluate the propriety of spending public funds on these types of expenditures.

- E. Indication of the receipt of goods or services is not always indicated prior to an expenditure being approved for payment. Most invoices reviewed did not indicate the goods or services were received. The documentation of receipt of goods or services is necessary to ensure the district actually received the items or services being paid.

- F. The district occasionally prepares and/or issues checks prior to the expense actually being incurred.
1. Five checks, totaling \$10,000, written between July 1999 and December 1999 to one vendor for an on-going project, were not distributed until January 2000 through June 2000. Work was not completed and vendor invoices were not dated until two to four months after the checks had been written.
  2. Some payroll checks, written to the former district manager and former superintendent, were distributed and cashed prior to the end of the payroll period.

The practice of issuing checks prior to the expense actually being incurred increases the likelihood the district will pay for goods or services it does not receive.

- G. The district did not report all applicable payments on 1099-Misc forms as required by the Internal Revenue Code. During calendar year 1999, one vendor was paid \$104,581, but only \$97,964 was reported on the 1099-Misc form; another vendor was paid \$7,323, but only \$5,123 was reported.

Sections 6041 to 6051 of the Internal Revenue Code requires that non-wage payments of at least \$600 in one year to an individual or unincorporated business be reported to the federal government on 1099-Misc forms.

- H. While the district's written policy requires a usage and maintenance log showing use, purpose, mileage, and maintenance be maintained, such logs were not prepared or not submitted by the former manager. The district's former superintendent did prepare logs showing miles driven for five months in 1999, but these logs were not detailed and showed no maintenance information for his truck. In addition, the district's written policy for the former manager's vehicle allowed for personal use of the truck, however, the district did not report the usage to the IRS as additional compensation.

Logs should be maintained indicating the purpose and destination of each trip, the beginning and ending odometer readings, and the operation and maintenance costs. The log should be reviewed by the Board of Directors to help ensure there is no inappropriate personal use of the district's vehicle, verify the propriety of fuel and/or repair billings, and identify the need to replace the vehicle due to excessive maintenance costs. In addition, without procedures for determining personal use, the district cannot ensure all personal usage is approved and reported as additional compensation as required by the IRS.

**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.

- B. Request proposals for professional services engaged by the district.
- C. Require adequate supporting documentation for all expenditures and develop a written travel policy.
- D. Ensure expenditures are limited to those necessary to support the operations of the district.
- E. Ensure the receipt of goods or services is indicated on the invoice prior to payment.
- F. Stop the practice of issuing checks prior to the expense actually being incurred.
- G. Ensure payments totaling greater than \$600 in one year to non-employees and unincorporated businesses are properly reported to the Internal Revenue Service as required and file amended forms for payments made in prior years.
- H. Require usage and maintenance logs be maintained for all district vehicles and perform a periodic review of the logs. The district should also ensure all personal usage of the vehicles is approved and reported to the IRS as additional compensation.

**AUDITEE'S RESPONSE**

*A&B. The board plans to formalize a bid policy that addresses all these issues.*

*C. The board will develop a travel policy in the near future and will ensure adequate supporting documentation is maintained for all future expenditures.*

*D. We agree.*

*E&F. We agree and this will be done.*

*G. We have already filed amended forms for 1999 for applicable businesses and will ensure that future forms are correct.*

*H. We agree and have implemented this recommendation.*

<b>4. Accounting Controls and Procedures</b>
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- A. Although there is an occasional reference to a specific expenditure being approved for payment, the board minutes usually make only general reference that accounts payable are approved for payment. Prior to April 2000, the board did not normally review invoices before payment. While an accounts payable listing was presented at each monthly board meeting, these listings are not marked as approved by the board nor are they filed with the board minutes. In addition, bills received after one council

meeting but due before the next council meeting are not reflected on these listings and are not presented to the board for approval.

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 board members to denote board approval, and retained with the official minutes. In addition, supporting documentation should be reviewed by the board or someone independent of the disbursement process before payment is made. Failure to properly review all invoices and supporting documentation, and to document authorization, increases the possibility of inappropriate disbursements occurring.

- B. District policy requires only one signature on checks under \$500 and two signatures on checks over \$500. Section 247.100.3, RSMo 1994, requires all checks issued by a water district to be signed by both the clerk and board president. Dual signatures provide assurances that checks represent payments for legitimate district expenditures. The district should change this policy to comply with state law.
- C. There is no independent oversight or adequate segregation of duties related to the utility billing system. Presently, the clerk performs all functions related to generating monthly utility bills, receipting and recording utility payments, making credit adjustments, depositing monies received, and monitoring accounts for delinquencies.

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. Internal controls would be improved by segregating the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts.

**WE RECOMMEND** the Board of Directors:

- A. Ensure the approval of all disbursements is adequately documented by including a listing of all approved disbursements in the board minutes, and requiring supporting documentation be reviewed by the board or someone independent of the disbursement process before payment is made.
- B. Require the board president and the clerk sign all checks as required by law.
- C. Segregate the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent reconciliation between utility payments deposited and recorded, and an independent approval of credit adjustments and follow-up on delinquent accounts.

## **AUDITEE'S RESPONSE**

- A&C. *We agree and will discuss these concerns with our CPA and develop polices and procedures as appropriate.*
- B. *We now require two signatures on all checks and will review this situation with our legal counsel.*

<b>5. Related Party Transactions</b>
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The following related party transactions were noted:

- Since 1994 the district has contracted with a company owned by the spouse of current board member Robert K. Clifton to read meters. During 1999, the company was paid \$8,261. On occasions when the contract with the company was discussed, the board minutes indicate that Robert K. Clifton was either not present or did not vote. However, the service was not competitively bid. At the January 2000 board meeting, the board rejected a lower unsolicited bid from another party to read meters.
- Payments were made to three children of current board member Geral Rinacke during 1994 and 1995, while he served as board president. A daughter was employed by the district as a clerk and two sons were contracted to read meters and pressure test water lines. No documentation was available to determine whether Geral Rinacke voted to hire his relatives. The Missouri Constitution prohibits the appointment or hiring of relatives.
- The district purchased a truck, in 1994, from current board member Geral Rinacke while he served as board president, for \$3,500, without seeking bids.

These payments represent potential violations of state law. Prior to 1998, Section 105.454, RSMo 1994, prohibited financial transactions between a political subdivision and an officer or employee (or spouse, dependent child, or business and corporate interest of the officer or employee) of that political subdivision that involved more than \$500 per year unless there had been public notice to solicit proposals and (except for real property) competitive bidding, provided that the bid or offer was the lowest received. In 1998, this threshold was changed to \$500 per transaction or \$1,500 per year. In addition, the appointment or hiring of a relative by a public official is prohibited by the Missouri Constitution. Because of the serious consequences which can result by hiring a relative, the circumstances surrounding the hiring of a district official's relative should be fully documented.

Discussions and decisions concerning appointments where nepotism or a potential conflict of interest exists should be documented so that the public has assurance that no district official or agent has acted improperly. Board members should abstain from voting when a relative's employment or appointment is involved, and their abstention should be clearly documented in the minutes.

**WE RECOMMEND** the Board of Directors refrain from entering into transactions with board members and their relatives. If a transaction must be entered into with such a party, the transaction should be conducted after public notice and competitive bidding in accordance with Section 105.454, RSMo Supp 1999. If a relative of a board member is considered for employment or appointment, that board member should abstain from voting on the issue and an adequate record of the abstention should be maintained.

**AUDITEE'S RESPONSE**

*We agree and will comply with the law in the future.*

<b>6. Personnel Policies and Procedures</b>
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- A. During 1999, the district's former manager was paid \$1,854 for unused 1998 vacation leave and \$1,910 for unused 1999 vacation leave. According to the former manager, any leave days he had taken during 1998 and 1999 were compensatory time for overtime earned, so no vacation leave had been used and he was entitled to full compensation of his vacation leave. Because the former manager did not prepare time sheets, there is no record to document that he worked any overtime, earned compensatory time, or did not take any vacation leave.
- B. The former manager was paid \$1,000 per month from the Jackson County Water Company, as a management fee, in addition to the salary and vacation leave paid by the district. These payments, which began in January 1997 and ended in July 2000, totaled \$43,000 and were reported by JCWC to the Internal Revenue Service (IRS) on a 1099-Misc form, instead of W-2 forms.

The Internal Revenue Code requires employers to report wages on W-2 forms and withhold federal income taxes. Similarly, Chapter 143, RSMo 1994, includes requirements for reporting wages and withholding state income taxes. State and federal laws require employers to withhold payroll taxes and pay the employer's share of social security on the compensation paid to employees. Section 105.300, RSMo 1994, defines an appointive officer or employee of a political subdivision as an employee for social security tax purposes.

**WE RECOMMEND** the Board of Directors:

- A. Ensure payments for unused vacation leave are supported by adequate documentation.
- B. Ensure payroll taxes are properly withheld and remitted for any wages or salaries paid.

**AUDITEE'S RESPONSE**

*A&B. We agree. This employee no longer works for us and these payments have stopped.*

<b>7. Board Minutes</b>
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- A. The board minutes and meeting agendas normally did not document the specific reason to go into a closed session. Section 610.021, RSMo, allows the board to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, personnel issues, some competitive bidding issues, confidential or privileged communications with auditors, etc. Section 610.022, RSMo 1994, requires a closed meeting, record or vote be held only for the specific reasons announced publicly at an open session. This law also provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote.

In addition, formal written minutes are not maintained for closed meetings. Although minutes for closed meetings are not specifically required by law, minutes constitute a record of proceedings of the Board of Directors. Formal written minutes for closed meetings result in a better record of district transactions, proceedings, and decisions. Minutes would also help the district demonstrate that closed discussions related to the specific reason announced for closing the meeting pursuant to the Sunshine Law, Chapter 610, RSMo.

- B. Board minutes of the open meetings do not always include sufficient detail of matters discussed and actions taken. For example, the district received an unsolicited bid for reading water meters, but the minutes did not include any discussion of the bid or the reason for rejecting it.

The minutes are the only official record of the actions taken by the board. Care should be taken to ensure the minutes are complete and provide reasons and specific intentions behind board decisions. Inadequate or unclear minutes can lead to subsequent confusion as to board intentions and possible incorrect interpretation of board actions by the general public, future board members, or other outside entities.

**WE RECOMMEND** the Board of Directors:

- A. Ensure the minutes and agenda state the specific reasons for going into a closed session, as required by state law, and ensures minutes of the closed meetings are maintained.
- B. Ensure the minutes document the information necessary to provide a complete description and explanation of board deliberations and actions.

**AUDITEE'S RESNONSE**

*A&B. We agree and we intend to comply with the requirements of the Sunshine Law.*

<b>8. Budgets and Financial Reporting</b>
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- A. The board did not approve the annual budgets. Section 67.010, RSMo 1994, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing year. The budget prepared by the former manager did not include beginning available resources or an estimate of ending available resources, a budget message, or comparisons of actual or estimated revenues for the two preceding fiscal years. Section 67.010, RSMo 1994, requires all political subdivisions of the state to prepare an annual budget which presents a complete financial plan for the ensuing budget year.

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. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations by fund, 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 or estimated revenues and expenditures for the two preceding fiscal years.

- B. The district did not submit annual financial reports to the State Auditor's office as required by state law. The only financial report submitted was for the year ended December 31, 1999. Section 105.145, RSMo 1994, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's office.

**WE RECOMMEND** the Board of Directors:

- A. Ensure an annual budget, prepared in accordance with Section 67.010, RSMo 1994, is approved by the board.
- B. Submit annual financial reports to the State Auditor's office as required by state law.

**AUDITEE'S RESPONSE**

- A. *We agree and will do this in the future.*
- B. *This is now being done.*

**9.****Fixed Asset and Supply Records and Procedures**

- A. The district does not maintain adequate property records of its fixed assets. While a list of assets was maintained by the former district manager, the list was not complete and did not contain serial numbers, historical costs, or acquisition dates.

Property records for fixed assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage. To develop appropriate records and procedures for fixed assets, the district needs to undertake a comprehensive review of all property owned by the district. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The district should properly record all fixed asset transactions, and ensure the accuracy of the recorded fixed assets. Periodically, the district should take physical counts of its assets and compare them to the detailed records.

- B. The district does not tag or otherwise identify the fixed assets as property of the district. Properly tagged items help assure the district that all fixed assets are included on the fixed asset records, and are identified as belonging to the district.
- C. The district has not established a perpetual inventory record to account for its inventory of maintenance supplies. As a result, the district does not have adequate controls over these items nor does it have information readily available concerning inventory balances as well as additions and uses of supplies.

In addition to maintenance supplies used by district employees, the district purchases supplies that are to be used by contractors. One such supply is copper pipe, which is solely used by a contractor when setting meters. The district purchased 2900 feet of copper pipe from January 1, 1999 through July 31, 2000, but only recorded using 1,807 feet. Records did not show the use of the remaining 1,093 feet of copper pipe, valued at \$1,093. As of August 8, 2000, the district had less than 50 feet of copper pipe on hand. Adequate controls over inventorable items require that perpetual inventory records be maintained that document the purchase and use of such items, as well as provide inventory balances. Such records would allow the district to more closely monitor these assets and reduce the possibility of the loss or the misuse of these supplies.

**WE RECOMMEND** the Board of Directors:

- A. Establish property records for fixed assets that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.

- B. Properly tag, number, or otherwise identify all district property.
- C. Ensure a perpetual inventory record is established for the maintenance supply inventory.

**AUDITEE'S RESPONSE**

*A&B. We are in the process of establishing these records.*

*C. We are working on developing the perpetual inventory records and have already changed the procedures for issuing materials to contractors.*

This report is intended for the information of the district's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.