

# State Auditor Delivers Audit of Sugar Creek Special Road District \$00

A petition made by some of the residents of the Sugar Creek (Seligman) Special Road District to the the Office of the Missouri State Auditor, Susan Montee, sparked a thorough review. Representatives Pat Tillery and Natalie McNish, delivered the results of the audit at a public meeting last Thursday at the City Hall in Seligman; attended by approximately 30 persons.

The audit contains a thorough review of the district's activities during the calendar year of 2008 with some references to other periods.

The 2008 income for the district was \$198,703. Since the voters election rejected a renewal of the 13 cents per thousand dollars of district property tax in April, Sugar Creek will see a loss of \$15,295 from the income in 2009.

Pam Tillery explained the findings of the lengthy report in detail, and invited questions throughout each section of the report. Over 30 critical violations were cited. The report contains the following eight major categories: Disbursements; FEMA; Payroll; Controls and Procedures; Budgets, Financial Statements and Road Maintenance; Meetings Minutes and Public Access Policy; Culvert Sales and Inventory Procedures; Capital Asset Records and Procedures.

Although the entire report was fully discussed, here is a summary of the most critical issues addressed during the meeting:

**Disbursements:** The district purchased an 8,000 gallon steel tank from Commissioner Lloyd in February 2003. While board minutes reflect that Lloyd abstained from voting on the matter, other bids were not

solicited.

Officers of the Special Road District serve in a fiduciary capacity and therefore must avoid the appearance of conflicts of interest. Section 105.454 and 105.458 RSMO prohibited financial transaction between the district and elected officials. Officials who have an unavoidable conflict should fully disclose and document the matter.

Some other transactions appear questionable and do not include supporting documentation.

During the year ended December 31, 1997, the district made four payments totaling \$609 to a local repair shop owned by his son. The vender invoices were prepared by Commissioner Lloyd. The checks issued by the district were signed, endorsed and cashed by the Commissioner. Neither the repair shop nor the son has a listed phone number and the Auditors were thus unable to make contact to verify that these payments were received by his business. As a result, these transactions were questionable.

The district does not have formal bidding policies. Either bids were not obtained or bid documentation was not retained for the following purchases totaling \$169,957 during the

two years ended December 31, 2008: Backhoe, Tractor, Boom Mower, Asphalt, Diesel and Unleaded Fuel, Culverts, Contract Labor, Workman's Compensation Insurance, Property Insurance, Welding.

The board did not ensure it paid the bid price for gravel. Competitive bidding, and complete documentation of bids is necessary. The district paid a \$154 invoice twice during December 2008, for failing to mark invoices

paid. Also, documentation for goods and services being received prior to the disbursements being approved for payment is necessary.

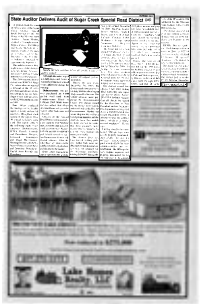
The district issued two checks in July 2008 totaling \$282 with only one signature on the check. Section 233.335.5 RSMO requires that all checks be signed by the President or Vice President and the Secretary. Dual signatures are required. Also, all \$4,500 check was issued December 2008 in advance to pay for contract labor, "which is a serious control weakness." Tillery says.

Fuel logs need to be maintained. Mileage logs must also be properly maintained. Additionally, policies for mileage reimbursements paid (a total of \$547 to three commissioners) are not established. The IRS regulations require expenses not properly accounted for to the employer, to be considered gross income and payroll taxes be withheld from all undocumented payments. Uniform reimbursement rates should be standardized to avoid any variance. Apparently, the district was paying one commissioner fifty cents per mile, while the other commissioner received thirty-four center per mile.

During the year ended December 31, 2008, the district did not file 1099 forms for backhoe, excavation and roller repair services totalling \$4,500 and \$908, respectively. This is a violation of IRS codes 6041 through 6051. Tillery said that all violations of the IRS code will be submitted by the Missouri State Auditors Office to the IRS for review.

The district also did not enter into written contracts defining services to be ren-

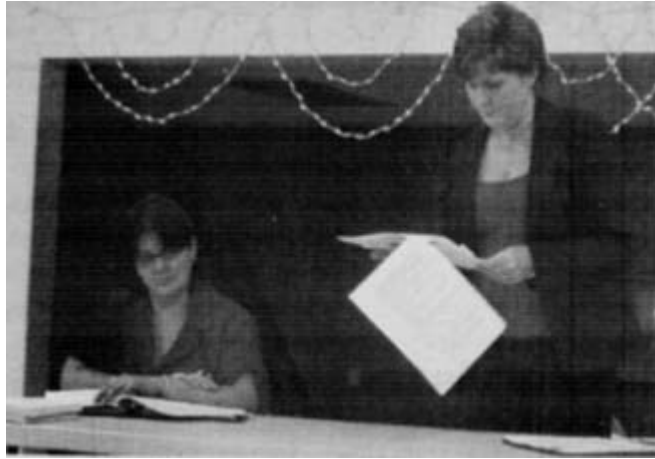
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dered and benefits to be received.  
grant was awarded in Federal Emergency Management Assistance to the district to repair and rebuild roads. The district did not solicit  
ids for excavation and backhoe services to remove debris and reconstruct the roadway. The district paid a vendor \$7,165 between December

*Audit continued on A-5*



*Natalie McNish and Pam Tillery deliver the results of the auditor's report.*

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## Audit

30, 2008 and February 13, 2009. In addition, the work had not been completed as of April 10, 2009, and the district did not enter into a written contract with the vendor.

The district purchased a culvert costing \$750 from this same vendor without soliciting bids.

The district has not established a separate record keeping system to track disbursements related to each FEMA project as required. As a result, the Auditor was unable to determine all costs incurred related to each FEMA project.

The FEMA documentation guide requires advertisement and solicitation for bids for construction of debris services, as well as requiring the district to obtain a price or rate quote from several qualified sources for supplies purchased.

FEMA also requires that a separate record keeping system be established to accurately record all activities and disbursements related to disaster recovery work. These records must be maintained for three years after the closure of the applicant's grant. Failure to retain adequate records could result in having to repay a portion of the grant monies received.

**Meeting Minutes and Public Access Policies:** The district did not always ensure compliance with the Sunshine Law.

Meeting minutes did not

always include adequate detail of matters discussed. There were several instances where the minutes reflected a vote had passed, but did not indicate the number of votes for or against. The minutes sometimes indicated that road work was performed on a road, but did not include the district name/number of the road. The minutes indicated that some bids were received for purchases of equipment and supplies, however, the meeting minutes did not document the final decision and reasons to award the bids.

District business appears to be conducted outside of regular open meetings. During the March 14, 2008, meeting, the minutes reflected a discussion for a backhoe. A motion for bids or purchase of a backhoe was not made or approved. The Secretary/Treasurer advertised for bids for the purchase of a backhoe on March 26, 2008, and a bid received prior to the advertisement of bids, received on March 7, 2008, was the only bid retained by the district. A backhoe was purchased prior to the next meeting scheduled for April 11, 2008. There were several other similar situations noted.

The governing bodies of all political subdivisions are required to conduct business in regular open meeting. Any time a quorum of board members meet in person or by phone and transact public

business, they are subject to the Sunshine Law.

District officials' indicated notices of meetings did not include tentative meeting agendas, and the district did not retain copies of some meeting notices as required by 610.020.1 RSMO.

This district does not have a formal policy requiring public access to district records. Section 610.023 RSMO lists requirements of making district records available to the public.

Commissioner Lloyd held up the report and asked the people, "Well was this paper worth the \$9,000 it is going to cost the district for the audit?" An irate Citizen replied, "Yes, it was damn well worth it."

On several occasions throughout the meeting Tillery asked the citizens to calm down, and save their inflammatory questions and remarks for the next business meeting. "We are here to explain the results of the report," she said.

Tillery was quick to point out that the commissioners of the Sugar Creek Special Road District were very cooperative throughout the audit and steps are being taken to correct these problems from arising in the future. She also stated, "that these are elected officials who are not given any special legal training." To which Commissioner Lloyd responded, "We want to thank the Auditors because  
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