

MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT

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**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES**

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED UPON PROCEDURES

Missouri Department of Natural Resources
Jefferson City, Missouri

And

Mark Twain Solid Waste Management District-Region G
Hannibal, Missouri

We have performed the procedures enumerated below, which were agreed to by the Missouri Department of Natural Resources (the "Department"), solely to assist you in evaluating the effectiveness of the Mark Twain Solid Waste Management District's (the "District") compliance with state law, regulations, and policies, for the period January 1, 2005 through December 31, 2006. Management is responsible for the District's internal control over compliance with these requirements and the accompanying appendices.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

In accordance with Government Auditing Standards, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the District's solid waste management program and any fraud or illegal acts that are more than inconsequential that come to our attention. We are also required to obtain the views of management on those matters. Our agreed-upon procedures engagement disclosed certain findings that are required to be reported under Government Auditing Standards and those findings, along with the views of management, are described as follows:

1. History and Organization

Criteria: Review the District's organization for compliance with state law. Review the structure of the Executive Board for compliance with state law and the District's policies and procedures for monitoring qualifications, terms, vacancies, and conflict of interest of the Executive Board members. Review the District's by-laws for compliance with state laws and for proper approval.

Procedures: We reviewed whether the District retained the orders of the governing body of the counties that joined the District, the written notice to the Department of the formation of the District, and the Notification of Formation issued by the Department. We reviewed the structure of the Executive Board and any potential conflicts of interest on being a member of the board. We reviewed the District's by-laws for proper approval and compliance with state law.

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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

Results: The orders of the governing body of each county that joined the District were on file, along with the written notice to the Department of the formation of the District, and the Notification of Formation issued by the Department. Signed instruments were also on file for the cities with a population over 500 that also joined the District. The District executed an "Intergovernmental Cooperation Agreement" in January 1999 with all seven counties to change to the "Alternative Management Structure" allowed by state law. We also reviewed the structure of the Executive Board of the District. The District has an Executive Board consisting of one member from each county. The Executive Director also serves on the Executive Board but is not a voting member. The District does not have a Council. (See Appendix I for History and Organization)

A review of the District's by-laws noted no conflict with state laws. The by-laws were properly approved and amendments were adhered to.

2. Board Minutes

Criteria: Review the Executive Board minutes for adherence to state laws and for pertinent facts and information.

Procedures: We reviewed the Executive Board minutes for adherence to state laws and for pertinent facts and information for the two years ended December 31, 2006.

Results: The District had proper agendas for each Executive Board meeting held that included the time, date, and location of the meetings. The agenda also served as the public notice, which was posted the day before at the respective meeting location. The agendas indicated that a closed session meeting would be held, if needed, and the minutes included the specific notation to the various subsection of RSMo Section 610.021 in a paragraph for closing the meeting. During the year ended December 31, 2006, the Executive Board went into a closed session twice during December 2006.

We noted that several of the Executive Board minutes were not signed by the secretary to the Executive Board or an Executive Board member for attestation purposes after approval by the Executive Board. Motions were made and passed that were mostly designated with the term "Motion Carried" instead of listing the yeas and nays of each board member or using the term "Motion Carried Unanimously" when all were in favor of the motion.

Finding 1: Executive Board Minutes Not Signed or Attested to by a Member

Condition: The Executive Board minutes were not signed by the secretary to the board and attested to by the Chairman or another member on several occasions.

Criteria: RSMo Section 610.020.7 requires that a journal or minutes of open and closed meetings shall be taken and retained by a public governmental body. Good business and management practices require that the minutes taken of meetings be signed by the secretary or person taking the minutes along with the attestation of the Chairman of the Executive Board or another board member.

Cause: The District stated they did not realize that this was considered necessary since the full Executive Board approved the minutes.

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

Effect: The District could miss a potential problem with the minutes if someone is not responsible for reviewing the written content of the minutes to ensure that the minutes are accurately stated and reflect all important information needed.

Recommendation:
We recommend that the District require the secretary and the Chairman of the Executive Board or another board member to sign and attest to the accuracy of the written content of the board minutes.

Response: The board concurred with the recommendation and indicated that this has been implemented.

Finding 2: Board Minutes Not Indicating Votes on Motions

Condition: The board minutes did not indicate the vote of each Executive Board member when motions are voted upon. The wording included in the minutes was mainly that the "Motion carried" and sometimes indicated "Motion Carried Unanimously".

Criteria: RSMo Section 610.015 requires that all votes shall be recorded, and if a roll call is taken, as to attribute each "yea" and "nay" vote, or abstinence if not voting, to the name of the individual member of the public governmental body.

Cause: The District stated they did not know the exact law that prescribed this.

Effect: The District did not adequately document the results of the votes of each board member according to state law.

Recommendation:
We recommend that the District include in the board minutes the votes of each Executive Board member when motions are made and voted upon, or note "Motion Carried Unanimously" when all are in favor of a motion.

Response: The board concurred with the recommendation and indicated this has been implemented.

Finding 3: Board Minutes Regarding Information Presented

Condition: The board minutes did not list or identify the board members absent but only those members present.

Criteria: RSMo Section 610.020.7 requires that the board minutes contain the names of those board members both present and absent.

Cause: The District stated they did not know that this specific law had to be addressed in the minutes.

Effect: The District did not fully follow the law when completing the board minutes to identify all of the board members as being present or absent.

Recommendation:
We recommend that the District record in the minutes the names of the board members that are present and those that are absent from the meeting.

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

Response: The board concurred with the recommendation and indicated that this has been implemented.

Finding 4: A Board Meeting Held without a Quorum of the Board Present

Condition: A board meeting was held in January 2005 with only three board members present that did not constitute a quorum of the seven members of the board.

Criteria: RSMo Section 260.320.1 states "A majority of the members of the board shall constitute a quorum." Article VI of the District's by-laws states that a quorum shall be any four Executive Board voting members and said majority shall have the right of the full Executive Board.

Cause: Two of the appointed board members from Shelby and Ralls Counties were not participating in District business. The Executive Board considered three board members to be a quorum of the five active members.

Effect: The District may not have held a valid board meeting since a quorum of the full board of seven members was not present.

Recommendation:

We recommend that the District not hold a board meeting without a quorum of the total board present. The board should review this meeting again in a future board meeting with a quorum present and approve the actions from that meeting and document this in the board meeting minutes. The District should fill board positions for entities that are not participating and inform all board members that they must be active and participate to aid in establishing a legitimate quorum at the meetings.

Response: The board concurred with the recommendation and provided the following written comment:

At the time of this meeting, the District had been under the assumption that a quorum was a majority of the counties that were sending representatives to meetings and actively participating in the District's business. Due to two counties not actively participating for a significant amount of time, the District was under the assumption that a quorum for a meeting was three of five counties represented instead of four of seven counties represented.

The District will consider a quorum as four of seven for any meetings in the future.

3. Internal Controls

Criteria: Review the District's internal control procedures to ensure that proper controls and reviews are in place.

Procedures: We reviewed the District's internal control procedures and the corresponding reviews of financial information and invoices made by the Executive Board. We reviewed internal control issues required by the District's by-laws.

Results: The Executive Director performs some of the receipts, disbursement, and bookkeeping functions. However, this person is not able to sign checks or withdraw monies without proper Executive Board members' approval. The monies received by the District from state funds are directly deposited into one of the District's bank

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

accounts. The Executive Director stated that the District contracts with an outside firm to do much of the accounting functions and to prepare reports to the Executive Board. Four Executive Board members are eligible to sign checks and two Executive Board members review the invoices and approve (sign) the monthly vouchers for all expenditures. Two signatures are required on all checks. The review noted that the board is not reviewing and approving the monthly bank reconciliations.

The Treasurer of the Executive Board did not have a surety bond on file in accordance with Article V of the District's by-laws. There was also no bond coverage for the Executive Board members that sign checks.

Finding 1: Surety Bond Not on File to Cover Board Members

Condition: A surety bond is not on file with the District to cover the Treasurer and all Executive Board members.

Criteria: Article V of the District's by-laws requires that the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Executive Board shall determine. Also, Section I.E.3 of the General Terms and Conditions requires effective control and accountability be maintained for all subgrantee cash, real and personal property, and other assets.

Cause: The District did not realize that a surety bond was still not on file for the Treasurer and Executive Board members.

Effect: The District put itself at a risk of loss by not properly insuring all members of the Executive Board.

Recommendation:

We recommend that the District obtain a surety bond in a sufficient sum for the Treasurer and all Executive Board members of the District.

Response: The board concurred with the recommendation and indicated they have been accepted for fiduciary bond coverage to cover the Executive Director and applicable board members.

Finding 2: Board not Reviewing Monthly Bank Reconciliations

Condition: The board is not reviewing and approving the monthly bank reconciliation. The Executive Director stated that the District's independent bookkeeping firm prepares the monthly bank reconciliation.

Criteria: Good business practices and proper independent approval is necessary to safeguard District assets and to ensure that reconciliations are properly performed between the accounting records and the bank accounts. Also, 10 CSR 80-9.050(4)(B) requires "An executive board receiving funds from the Solid Waste Management Fund for district grants shall themselves maintain, and require recipients of financial assistance to maintain, an accounting system according to that accurately reflects all fiscal transactions, incorporates appropriate controls and safeguards, and provides clear reference to the project as agreed to in the Financial Assistance Agreement."

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED UPON PROCEDURES (CONTINUED)

Cause: The District did not realize the necessity of having the board approve the monthly bank reconciliations.

Effect: The District could be exposed to a loss of resources without a proper review and approval of the monthly bank reconciliations.

Recommendation:

We recommend the District Board review and approve the monthly bank reconciliations.

Response: The board concurred with the recommendation and indicated that the board now reviews all expenditures, monthly bank statements, and bank reconciliations.

4. Review of Cash

Criteria: Review accounting system to ensure adequate records are maintained to account for all fiscal transactions. Review the cash balances of the District, review state funding and any local funding, review interest income earnings and any disbursement of interest for grants or other expenses, and the District's cash management process for forecasting cash needs. Review payroll checks to ensure checks are not cashed before the end of the payroll period.

Procedures: We reviewed the accounting system to ensure adequate records are maintained. We reviewed the District's bank accounts and bank reconciliations, the amount of state funds received along with any local funds, and the amount of interest income earned on the District's bank accounts. We reviewed the procedures for presigned checks and whether checks are issued in proper sequence. We reviewed for the possible early cashing of payroll checks. We reviewed how the District used interest income earned and its cash management process for forecasting cash needs.

Results: The District did not have available for review its bank reconciliations, a check register, and a general ledger or detailed grant ledgers to reflect transactions and balances of grants awarded. The District has one interest-bearing money market account and a checking account. The Executive Director stated the bank accounts are reconciled monthly by the outside firm that contracts with the District. (See Appendix III for the composition of grant balances and bank account balances at December 31, 2006.) This information was not verified through audit procedures. The result of the review of the quarterly reports submitted to the Department for the quarterly period ending June 30, 2006, September 30, 2006, and December 31, 2006, noted that the quarterly reports were not properly prepared and overstated the amount of grant funds remaining in the various grants as compared to the funds remaining in the District's bank accounts. The June 30, 2006 report was overstated by \$175,799; the September 30, 2006 report was overstated by \$133,075; and the December 31, 2006 report was overstated by \$155,753.

The District only receives state monies for grants and does not receive any local funding from counties or cities. (See Appendix II) There were no presigned checks held by the District. The checks were issued in numerical sequence. No checks were cashed before the date written or had been presigned and payroll checks were written only for the salary of the Executive Director and were not cashed early. The District prepares its grant requests when needed to fulfill the intent of the grant and to ensure continued use of the administrative grants.

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

The interest earned for the year ended December 31, 2005 in the amount of \$203 was obligated to grant G2006009 and reported to the Department. The District received \$288 in interest during the year ended December 31, 2006, and this amount was not properly reflected on the quarterly report as being unobligated and remaining in the bank account.

Finding 1: District Accounting Records not Available for Review

Condition: The District did not have for review its monthly bank reconciliations, a check register of ongoing transactions and cash balance, and a general ledger or detailed grant ledgers to reflect transactions and balances pertaining to grant awards.

Criteria: 10 CSR 80-9.050(4)(B) states "An executive board receiving funds from the Solid Waste Management Fund for district grants shall themselves maintain, and require recipients of financial assistance to maintain, an accounting system according to that accurately reflects all fiscal transactions, incorporates appropriate controls and safeguards, and provides clear references to the project as agreed to in the Financial Assistance Agreement."

Cause: The Executive Director indicated that records may have been given to the Certified Public Accounting firm that was presently conducting an independent audit of the District and are not available at the present time.

Effect: The District may not have maintained or retained adequate records to document all fiscal transactions pertaining to the District in accordance with state guidelines.

Recommendation:

We recommend that the District maintain and properly retain all necessary accounting records for review in accordance with state guidelines.

Response: None requested for this particular finding.

Finding 2: District's Quarterly Project Financial Summary Report not Properly Prepared

Condition: The quarterly report for the period ending December 31, 2006, was not accurately prepared and did not reconcile to the total cash balance held by the District. The quarterly report showed a total obligated balance for open projects of \$219,595. The total cash balance in the District's bank accounts was \$63,842, leaving a deficiency of \$155,573 (See Appendix III).

Criteria: Section 1.E.1. of the General Terms and Conditions requires that accurate, current, and complete disclosure of financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the subgrant. The Special Terms and Conditions for District grants state that "Any funds awarded to a district which are not expended (or encumbered) for the purpose for which the funds were awarded, will be repaid by the district to the MDNR SWMP for deposit into the SWMF."

Cause: The District did not properly reconcile the quarterly reports to the ending cash balance held by the District. The District is also not maintaining proper grant project and accounting records.

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

Effect: The District does not have sufficient funds to meet its obligations for open grant projects. Also the District may have improperly spent district grant funds.

Questioned Costs:
We question the deficiency of \$155,573.

Recommendation:
The District properly prepare a financial record by subgrant noting the receipts and disbursements from each grant and reconcile the balances remaining in each subgrant to the total cash balance held by the District. Any deficient funds may need to be recovered and repaid to the MDNR.

Response: The board concurred with the recommendation and provided the following written comments:

In 1997 the District incorporated the Mark Twain Waste & Energy Corporation (MTWEC) to carry on the development of a waste-to-energy (WTE) facility that will replace a WWII coal fired powerhouse located at the Hercules facility in Louisiana, Missouri.

Conventional wisdom concerning the statute that governed solid waste districts at that time said that the District could not own or operate the WTE facility. As a result, the District created MTWEC specifically to carry on the District's work on the WTE facility.

MDNR/SWMP has been aware of the District's significant and ongoing support of the WTE facility since 1997. MDNR has approved several grants to Pike County, the University of Missouri Agriculture Department and MTWEC in the intervening years to keep the momentum of the WTE facility project in tact.

MDNR/SWMP have approved designation of District operations funding for possible debt service on bank loans MTWEC has obtained and the District has guaranteed.

Until just last year, the District provided office space, supplies and personnel for the WTE facility project to assist MTWEC in keeping the project's momentum. At that time, several other parties with vested interest in the success of the WTE facility project began funding MTWEC and its operations.

The difference between the QSR financial summaries and the bank statements is the additional support that the District has provided to the MTWEC WTE facility project, which is in essence the District's project.

During the research for the FY 2000 through FY 2003 financial audit, the auditor notes a cumulative amount through FY 2003 of \$128,724 that the District has used from its operations funding to assist MTWEC. That amount, while less than the difference stated by the Performance/Compliance Auditor will surely grow somewhat when the financial audit for FY 2004, FY 2005, and FY 2006 are complete.

The District considers this support crucial to the MTWEC WTE facility project due to the fact that the District initiated the project, created MTWEC to further the project's development and is financially tied to MTWEC and the project via the guaranteed bank loans. Were it not for the one single line in the statute governing solid waste districts that prohibits districts from owning or operating waste

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

processing facilities, MTWEC would not exist and the District would be the entity facilitating the development of the WTE facility.

With the above in mind, the District has begun negotiations with MTWEC to begin repayment of the operations assistance that has been advanced. MTWEC has already agreed that the bank loans will be repaid from the construction financing for the WTE facility, thereby relieving the District of that financial burden and allowing the District to delete the debt service line item from its annual budget. MTWEC has agreed in the FAA for its last grant to repay that grant from the WTE construction financing, as well as, verbally agreeing to repay all grants to the project from the WTE construction financing. The District believes that the difference between the QSR financial summary and the bank statements will be repaid, as well, and are negotiating to receive reassurance from MTWEC to this affect in writing.

Therefore, the District would request approval from MDNR/SWMP to continue to negotiate written agreements with MTWEC to obtain the repayment assurances that should satisfy this issue.

Finding 3: Interest Income not Properly Reported on Quarterly Report

Condition: The District designated a total of \$203 in interest income earned for the year ended December 31, 2005 to one subgrant on the quarterly report to the Department but the interest earned for the year ended December 31, 2006 in the amount of \$288 was not properly reflected as unobligated and remaining in the District's bank account. The prior Limited Review of the District noted a similar condition that interest income was not reported to the MDNR.

Criteria: Interest income earned on state grants is considered state funds and the expenditure of interest income must be done pursuant to a state grant approved by the Department. The Department's Special Terms and Conditions state: "Expenditure of income earned from interest on district grant agreement funds must be in compliance with 10 CSR 80-9.050 Solid Waste Management Fund (SWMF) - District Grants." State rule 10 CSR 80-9.050(1)(C)1 states: "Grant monies made available by this rule shall be allocated by the district for projects contained within the district's approved solid waste management plan."

Cause: The District stated they did not understand that the interest income earned for the year needed to be reflected in the cash balance on each quarterly report.

Effect: The District did not follow Department guidelines on recognizing interest income as a part of the unobligated amounts of cash being held and, therefore, the quarterly reports were not accurately prepared as presented to the Department.

Recommendation:

We recommend the District properly reflect the total interest income earned on its quarterly reports in the future.

Response: The board concurred with the recommendation and will implement this.

5. General and Special Terms and Conditions

Criteria: Review the District's compliance with the General and Special Terms and Conditions to ensure compliance with statutory and administrative requirements.

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

Procedures: We reviewed the District's procedures and policies for compliance with the General and Special Terms and Conditions issued by the Department.

Results: The District fully attempts to follow the requirements of the General and Special Terms and Conditions to ensure that it is in compliance. The District promotes equal employment opportunity and nondiscrimination, ensures that all subgrant recipients are in compliance with state and federal environmental laws and have the required permits, prohibits the expenditure of funds for lobbying purposes, uses the Department's name for its news releases and publications, uses recycled paper as required, and promotes the use of grant funds for small and minority firms when possible.

The District does not generate any program income for its use. The District does not have any capital assets that it owns or has title to that is over the capitalization policy of \$5,000 established by the Department. The Executive Director retains records of the District's assets, such as office furniture and equipment, through a listing of each asset and these assets are only held at the District office.

However, we noted the following items that were not in accordance with the General and Special Terms and Conditions requirements:

- A. The District did not have a financial audit conducted each year or every two years but finally obtained a financial audit from a Certified Public Accountant (CPA) firm for the years January 1, 2000 through December 31, 2003. This condition also violated the District's by-laws under Article VIII which requires that an annual audit by an independent certified public accountant shall be performed.
- B. A listing of assets held by subgrantees is maintained; however, a detailed record or listing of each capital asset purchased with district grant funds and owned by the subgrantees has not been maintained in accordance with the General Terms and Conditions. Also, the subgrantees have not filed an annual statement certifying that the use of equipment is for project activities in accordance with the Special Terms and Conditions. There were no capital assets disposed of during the review period.
- C. The District has not filed all of the required UCC-1 forms with the Secretary of State for all subgrantee fixed asset items costing over \$5,000. The listing provided of those assets not having been filed indicated three items from FY04, two from FY05, and two from FY06.

Finding 1: Annual Financial Statement Audit not Obtained

Condition: The District has not obtained an annual audit of its records and accounts of its operations by a certified public accountant or a firm of certified public accountants as required. The District indicated that an audit was in process for fiscal years 2000-2003, and the District then planned to obtain an audit of fiscal years 2004-2006.

Criteria: The Special Terms and Conditions and RSMo Section 260.325.10 require that the district board shall arrange for independent financial audits of the records and accounts of its operations by a certified public accountant or a firm of certified

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

public accountants. Districts receiving two hundred thousand dollars or more of financial assistance shall have annual independent financial audits. The district shall provide DNR a copy of the entire audit report issued by a certified public accountant or a firm of certified public accountants within 120 days of the close of the district's fiscal year. Article VIII of the District's by-laws also requires that an annual audit by an independent certified public accountant shall be performed.

Cause: The District stated that they were relying on the Department for some guidance in this matter and did not actively pursue the annual audit requirement.

Effect: The District failed to comply with the Special Terms and Conditions and Missouri Law as it pertains to the operations of the District and to its by-laws requiring an annual audit.

Recommendation:

We recommend that the District obtain an annual audit of its records and accounts as required by the Special Terms and Conditions, Missouri Law, and Article VIII of its by-laws.

Response: The board concurred with the recommendation and indicated that the District was making every effort to finish the required audits. The District is in the process of obtaining an audit for fiscal years 2004-2006. The audit for fiscal years 2000 through 2003 is completed and was submitted to the Department." (A copy of the audit was submitted with the district's written responses dated May 17, 2007.)

Finding 2: No Detailed Listing of Capital Assets Maintained

Condition: The District is not maintaining a detailed listing of capital assets that the various subgrantees have purchased through grants.

Criteria: Section I.H.2. of the General Terms and Conditions require that property records be maintained that include a description of the equipment, a serial number or other identification number, the source of the property, the acquisition date, cost of the property, percentage of federal or state participation in the cost of the property, and the location, use and condition of the property.

Cause: The Executive Director thought that titles and a listing of assets held were sufficient records for capital assets.

Effect: The District is not totally aware of all the capital assets purchased with district grant funds and held by the subgrantees without a detailed inventory record being maintained.

Recommendation:

We recommend that the District maintain a detailed listing of capital assets purchased with district grant funds and owned by the subgrantees in accordance with the requirements of the General Terms and Conditions.

Response: The board concurred with the recommendation and will implement this.

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

- Finding 3: Annual Statements of use of Equipment not filed by Subgrantees
- Condition: Subgrantees have not annually submitted a statement certifying that the use of equipment is for project activities.
- Criteria: The Special Terms and Conditions require subgrantees to annually submit a statement as provided by the district certifying that the use(s) of said equipment is for project activities.
- Cause: The District did not request the statements from the subgrantees.
- Effect: The District is not properly ensured that the subgrantees are using the equipment for project activities.
- Recommendation:
We recommend that the District require an annual statement from each subgrantee certifying that the use of the equipment bought through state grants is for project activities.
- Response: The board concurred with the recommendation and will implement this.
- Finding 4: UCC-1 Security Interest Forms not filed by the District or Subgrantees
- Condition: The District or subgrantees have not filed all of the required UCC-1 security interest forms on capital assets (equipment purchases, buildings and site improvements of \$5,000 or more) purchased with district grant funds. The District or subgrantees have not filed several UCC-1 forms from FY04 through FY06. The grant numbers applicable to these UCC-1 filings are as follows: G2004103; G2004104; G2004105; G2005109; G2005115; G2006016; and G2006017.
- Criteria: The Special Terms and Conditions for District Grants requires that the subgrantee shall grant to the District, its successors and assigns a security interest or lien in all equipment purchased for \$5,000 or more and all building or site improvements purchased or constructed for \$5,000 or more, in whole or in part, with SWMF monies. The subgrantee shall sign the financing statement (form UCC-1) and return the form along with the financial assistance agreement to the District for processing.
- Cause: The District stated that there was a question on exactly which equipment the forms had to be submitted for and did not file all of the required forms.
- Effect: The District and the state were at a potential loss of state funds if the subgrantees would have suffered some type of loss. The District and state are not considered a secured creditor against the properties held by the subgrantees.
- Recommendation:
We recommend that the District and the subgrantees use and file the required UCC-1 forms for the construction of buildings or site improvements and for equipment items costing \$5,000 or more as required under the Special Terms and Conditions for the District Grants.
- Response: The board concurred with the recommendation and indicated that this has been implemented.

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

6. Review of District Grants

Criteria: Review the District's grants received from the state and select a sample of grants to review the project proposals, the review and evaluation process for the projects, and review the accounting records for unspent funds. Review the reports filed with the state to ensure accuracy of the grant documentation.

Procedures: The district grant projects for the fiscal years ended June 30, 2006 and 2005 were obtained from the Department. Eight projects were selected for review and these grants were as follows:

| | |
|------------|---|
| 2005001 | Plan Implementation and District Operation |
| 2005001(2) | Plan Implementation and District Operation |
| 2005111 | Monroe City R-1 High School bleacher renovation |
| 2005112 | Missouri Biofuels, L.L.C. |
| 2005229 | Mark Twain Waste to Energy Corporation |
| G2006-03 | City of Hannibal Recycling |
| G2006-08 | Region G Operations |
| G2006-18 | Mark Twain Waste to Energy Corporation |

Review the grant proposals, the evaluation of each grant award, and the reports filed with the Department for the grant projects.

Results: The District sends grant cycle notifications to each county and city within the county over 500 in population through a mailing. The proposals included the appropriate information concerning the projects along with a proposed budget. The procedures used by the Executive Board to review and rank the proposals are written and documented through a grant evaluation form with the results disclosed in the board meeting minutes. All of the proposals submitted appeared to be reviewed, evaluated, and ranked by the Executive Board. However, the Executive Director is listed as a Project Manager on two of the grants reviewed and he reviewed, evaluated, and discussed these projects along with all of the other grants with the board during the board meetings. This could be considered a conflict of interest since the Executive Director obtains all of the information on the grants and presents the information to the Executive Board for review and has a personal interest in two of the grants.

Expenditures for the eight projects appeared appropriate and in line with the grant program specifications; however, the District did release the retainage on one grant prior to the board approval to the recipient's final report and the final accounting of project expenditures.

Finding 1: Executive Director Reviews, Evaluates, and Discussed Projects as Project Manager

Condition: The Executive Director serves as Project Manager on two grants for the Mark Twain Waste to Energy Corporation. He reviewed, evaluated, and discussed these projects along with all other grant projects and presented the information to the Executive Board for review and evaluation. A monitoring review of the fiscal year 2003 district grant cycle that was performed by the MDNR noted a similar condition.

Criteria: 10 CSR 80-9.050(1)(C)4 states "District grant funds will not be awarded for a project whose applicant is directly involved in the evaluation and ranking of that particular project."

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

Cause: The District did not think that the Executive Director's review and evaluation of the projects would pose a conflict of interest since he does not vote on the proposed grants or rank the projects since this is performed by the Executive Board.

Effect: This could be considered a conflict of interest since the Executive Director also serves as a Project Manager and evaluates and discusses these grants with the Executive Board.

Recommendation:

We recommend that the Executive Director excuse himself from the discussion with the Executive Board for those projects which he is considered as a Project Manager.

Response: The board concurred with the recommendation.

Finding 2: Retainage on a Project Grant Released before Final Report Filed

Condition: The District released the fifteen percent retainage on grant award G2006-18 before the final report was filed. The grant award was for \$100,000 and the monies were released in two installments. The prior Limited Review of the District also noted that the 15% retainage was not properly withheld for some projects.

Criteria: 10 CSR 80-9.050(4)C states that "The executive board shall retain fifteen percent of the funds from the recipient until the board gives approval to the recipients final report and the final accounting of project expenditures."

Cause: The District felt that the subgrantee needed the funds for the administration of the grant and released the funds early.

Effect: The District did not comply with state rules and regulations regarding the early release of funds and not properly holding the retainage until the final report was filed and approved by the Executive Board.

Recommendation:

We recommend that the District properly withhold the fifteen percent retainage amount for each grant award until the final report and the final accounting of project expenditures has been submitted and approved by the Executive Board.

Response: The board concurred with the recommendation and will implement this.

We were not engaged to and did not conduct an examination, the objectives of which would be the expression of an opinion or limited assurance on the subject matter. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Missouri Department of Natural Resources and the Mark Twain Solid Waste Management District and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES (CONTINUED)**

Casey and Company, LLC

Casey and Company, L.L.C.
Certified Public Accountants
Columbia, Missouri

March 14, 2007

**MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT
FOLLOW-UP ON PRIOR FINDINGS**

The Department of Natural Resources Division of Administrative Support Internal Audit Program conducted a Limited Review of the District for fiscal years 1993 through 1995 dated January 1996. This report noted the following findings with the current status. Of the eight prior findings, five were implemented by the District and three were not implemented or partially implemented.

Finding: Banking System Weaknesses

The District did not have an effective system of internal control over receipts and reconciliation functions. A log of checks coming to the district was not maintained to reconcile with bank deposits. The fiscal manager prepared the deposit slips and took the deposits to the bank but also performed the monthly bank reconciliation without proper separation of duties.

Status:

After the prior audit, the district responded that it had segregated accounting duties between the Executive Director, the clerical person, and the fiscal manager. During the two years ended December 31, 2006, the District Executive Director stated the District has only one employee and contracted with an outside firm to perform the accounting functions. State monies received are directly deposited into the District's bank account. The Executive Board reviews a listing of checks prepared and the invoices each month; however, the board does not approve the bank reconciliations performed by the outside firm. This condition is noted in the current report at Section 3 Finding 2.

Finding: District Assets Not Properly Safeguarded

The District's checkbook was not properly safeguarded.

Status:

The District indicated that it now stores the checkbook in a fire proof file cabinet. No similar condition was noted during the two years ended December 31, 2006.

Finding: No Formal Evaluations Completed

The District board did not complete a formal evaluation of all district grant proposals.

Status:

The District indicated that beginning with fiscal year 1996 grant requests the Executive Board now uses criteria for evaluating and ranking applications as required by the District Grant Rule. No similar condition was noted during the two years ended December 31, 2006.

Finding: Inadequate Documentation Required from Subgrantee

The District did not have canceled checks or other documentation to fully support subgrant expenditures.

Status:

The District indicated that canceled checks would be required for reimbursement to grantees, and that each subgrantee now receives an invoice with instructions for reimbursement, including notice that copies of canceled checks must be submitted. No similar condition was noted during the two years ended December 31, 2006.

**MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT
FOLLOW-UP ON PRIOR FINDINGS (CONTINUED)**

Finding: Retainage Not Held

The District did not properly withhold the 15% retainage on three projects as required by 10 CSR 80-9.050(4)(C).

Status:

The District indicated that the three projects had submitted a final report to show that the proper retainage amount had been paid. The District also indicated that a new invoice provided to subgrantees has language pertaining to retainage of funds. A similar condition on retainage not properly withheld until the final report was filed was noted during the current review. This condition is noted in the current report at Section 6 Finding 2.

Finding: Subgrant not on Reimbursement Basis

One project noted that the grant was not implemented on a reimbursement basis. Grant funds were paid to the subgrantee prior to the payment for a chipper.

Status:

The District indicated it will provide funding to subgrantees on a reimbursement basis and will consider advance payments on a case by case basis and only rarely, using procedures established in the Department's General Terms and Conditions. No similar condition was noted during the two years ended December 31, 2006.

Finding: Interest Income not Reported

The District did not report its interest income totaling \$5,486.93 to the Department that was earned on its checking accounts and from a certificate of deposit.

Status:

The District indicated that it would annually inform the Department of its intended use of interest income from district grant funds. The District has recorded the interest income earned in the previous year on its year-end quarterly report to a specific program and has amended its original budget showing that a specific grant has been changed for the interest income earned and used for the program. Interest income earned in the current year is not properly shown on the quarterly reports to the Department as charged to a specific grant. This condition is noted in the current report at Section 4 Finding 3.

Finding: Copier Charges not Allocated Appropriately

The Mark Twain Region Council of Governments (MTRCG) did not properly allocate the rent of a copier between the various programs with a basic rental charge of 36% allocated to the Mark Twain Solid Waste Management District. The remaining programs were allocated the remaining basic rental charge of 64% and did not appear equitable. The MTRCG owed the District \$752.38 for overcharging the rental on the copier based on the total budgets for fiscal years 1993 through 1996.

MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT FOLLOW-UP ON PRIOR FINDINGS (CONTINUED)

Status:

The District indicated that copier rental was no longer contracted with the MTRCG on a predetermined basis. A copier with a card system has been obtained and each program now has its own card for accurate tracking of all copies. The MTRCG had reimbursed the District for the \$752.38 in over charges for the copier use. Because the District has separated from the MTRCG, this condition is no longer applicable and did not apply during the two years ended December 31, 2006.

A separate "Monitoring Report" performed by the Missouri Department of Natural Resources Division of Administrative Support Internal Audit Section dated January 10, 2003 on the Mark Twain Solid Waste Management District noted the following findings with the current status. Of the six findings noted, four were implemented by the District and two were not implemented or partially implemented.

Finding: District Grant Application and Evaluation Process

The following weaknesses were noted with the application and evaluation process for the fiscal year 2003 district grants:

A. Conflict of Interest-Executive Director

The Executive Director reviewed, evaluated, and ranked the ten applications that were received by Region G SWMD and was noted as the authorized official and the project manager for two applications. This was contrary to 10 CSR 80-9.050(1)(C)4.

Status:

A similar condition was again noted during the two years ended December 31, 2006 with the Mark Twain Waste to Energy subgrants and this finding is included in the current report at Section 6 Finding 1.

B. Conflict of Interest-Executive Board

Three individuals served on the Executive Board for Region G SWMD and also on the board of directors for the Mark Twain Waste and Energy Corporation (MTWEC). Two of the three board members participated in the approval of the application for MTWEC for \$90,000 and did not recuse themselves from the vote of approval.

Status:

During the two years ended December 31, 2006, no Executive Board members also served on the MTWEC board of directors. This finding is considered no longer applicable.

C. Failure of Executive Board to Evaluate Applications

The Executive Director performed a sole evaluation and ranking of the ten district grant applications for fiscal year 2003. The Executive Director indicated that the applications were discussed with the Executive Board but the discussion was not documented in the board minutes.

**MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT
FOLLOW-UP ON PRIOR FINDINGS (CONTINUED)**

Status:

The District indicated that the evaluation and ranking of projects has been changed so that all Executive Board members evaluate and rank each project and then vote on the proposed projects. The Executive Director reviews and evaluates projects but does not vote on or approve any of the projects. No similar condition was noted during the two years ended December 31, 2006.

D. Lack of Written Policies and Procedures and Documentation

The District did not have written policies and procedures for the application and evaluation process for district grants.

Status:

The District Executive Board indicated that it had adopted written policies and procedures for the application and evaluation process in accordance with the General Terms and Conditions. No similar condition was noted during the two years ended December 31, 2006.

E. Appearance of Biased Evaluation

The District appears to have not complied with applicable laws, rules, regulations, and program guidelines regarding the approval of ten applications approved by the District. The Executive Director of the District also was employed by the MTWEC and served as project manager for two grants to this facility. The minutes of the Executive Board did not properly document the discussion pertaining to the evaluation and ranking of the applications. Also, Executive Board members also served on the board of directors of the MTWEC. Consequently, these procedures appeared to represent possible conflicts of interest and unbiased evaluation of grant projects.

Status:

The Executive Board members no longer serve as board members of the MTWEC since 2003 and the Executive Director is no longer employed by the MTWEC. However, the Executive Director is currently listed as project manager on two grants to this facility during the two year review period. The Executive Director reviews and evaluates all projects for board consideration but does not vote on any approval of the grant projects for state funding. This condition may still be considered a potential conflict of interest and this finding is noted in the current report at Section 6 Finding 1.

Finding: Administrative Services Agreement

Region G SWMD contracted with the MTWEC for administrative services based on a written Administrative Services Agreement. This agreement did not state that Region G SWMD must pay for personnel costs of the Executive Director provided by MTWEC and did not provide a dollar value for the exchange of services. The agreement also did not require MTWEC to submit invoices to Region G SWMD for payment of office space, furnishings, tools, etc. for which Region G SWMD paid administrative fees.

**MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT
FOLLOW-UP ON PRIOR FINDINGS (CONTINUED)**

Status:

The District indicated that in 2003 it will become an employer instead of contracting for its administration. Therefore, this condition was considered no longer applicable for the two years ended December 31, 2006.

APPENDICES

MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT HISTORY AND ORGANIZATION

Function of the District

Missouri's 20 solid waste management districts were created to foster regional cooperation among cities and counties in addressing solid waste management issues. The main function of a district is to develop a solid waste management plan with an emphasis on diverting waste from landfills and to assist with implementation of the plan. Plans should include provisions for a range of solid waste activities: waste reduction programs; opportunities for material reuse; recycling collection and processing services; compost facilities and other yard waste collection options; education in schools and for the general public; management alternatives for items banned from Missouri landfills and household hazardous waste; and prevention or remediation of illegal dumps. To help achieve their goals, districts administer grants to public and private entities in their district, made possible with monies from the Solid Waste Management Fund through the Missouri Department of Natural Resources.

Organizational Structure of the District

The Mark Twain Solid Waste Management District (Region G) was formed on April 19, 1992 and consists of seven counties in Northeastern Missouri and twenty cities within these counties that have a population of 500 or more. On January 14, 1999, the District executed an Intergovernmental Cooperation Agreement which changed the management structure to the "Alternative Management Structure". The agreement was recorded in each of the seven counties and filed with the Secretary of State. The District does not have a Council. The District is managed by an Executive Board consisting of one member from each county. The District is not a subsidiary of a larger unit of government. The District hired an Executive Director as an employee to perform all the duties of managing the District. This individual is paid a salary plus benefits on a monthly basis per a written contractual employment agreement. The counties and the cities with a population of 500 or more that comprise the District are as follows:

| Counties | Cities | | |
|----------|---------------|-------------|-------------|
| Macon | Bevier | Huntsville | New London |
| Marion | Bowling Green | LaPlata | Palmyra |
| Monroe | Center | Louisiana | Paris |
| Pike | Clarence | Macon | Perry |
| Ralls | Clarksville | Madison | Shelbina |
| Randolph | Hannibal | Moberly | Shelbyville |
| Shelby | Higbee | Monroe City | |

The District Executive Board members as of December 31, 2006 are as follows:

| | |
|---------------------------|--|
| Jim Phillips, Chairman | Marion County |
| Roger Kohl, Vice-Chairman | Macon County |
| Susan Carter | Randolph County – Presiding Commissioner |
| Phillip Shatzer | Monroe County – City of Paris |
| Dan Miller | Pike County – Presiding Commissioner |

**MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT
HISTORY AND ORGANIZATION (CONTINUED)**

George E. Lane

Ralls County – Presiding Commissioner

Kerry McCarty

Shelby County – Associate Commissioner

The Secretary and Treasurer positions on the Executive Board were not filled and considered vacant at December 31, 2006.

Article V of the District's by-laws state that officers will hold a term of office for two years. Article VI of the District's by-laws state that the Executive Board members will serve at the pleasure of their county commission.

**MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT
SCHEDULE OF STATE FUNDING
YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005**

Year Ended June 30, 2006

| Received from State | Total | Grant No. | Amount | Purpose |
|------------------------|------------------|--------------|------------|---|
| December-05 | \$81,745 | 2006-08 | \$ 81,745 | Region G operations |
| January-06 | \$107,143 | 2006-01 | \$ 900 | Hannibal High School recycling bins |
| | | 2006-02 | \$ 4,700 | City of Macon playground equipment |
| | | 2006-03 | \$ 12,000 | City of Hannibal recycling |
| | | 2006-04 | \$ 42,296 | City of Paris solar wall air heating |
| | | 2006-05 | \$ 19,897 | American Children Safety Network |
| | | 2006-06 | \$ 7,500 | Kan - Man Metal Recycling |
| | | 2006-07 | \$ 19,850 | Shelby County Motors major appliance recycling |
| May-06 | \$302,055 | 2006-09 | \$ 12,297 | Randolph County Abatement through recycling |
| | | 2006-10 | \$ 5,000 | Mark Twain Habitat for Humanity |
| | | 2006-11 | \$ 14,000 | City of Hannibal recycling center building project |
| | | 2006-12 | \$ 50,000 | Community Child Development Center playground equipment |
| | | 2006-13 | \$ 14,092 | City of Higbee park improvements |
| | | 2006-14 | \$ 12,600 | Monroe City Sheltered Workshop |
| | | 2006-15 | \$ 9,500 | City of Moberly recycling facility |
| | | 2006-16 | \$ 68,500 | City of Palmyra Recycling Center |
| | | 2006-17 | \$ 16,066 | Northeast Missouri Correctional Center food waste recycling |
| | | 2006-18 | \$ 100,000 | Mark Twain Waste to Energy Corporation |
| Total | <u>\$490,943</u> | | | |

APPENDIX II
 MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT
 SCHEDULE OF STATE FUNDING (CONTINUED)
 YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005

Year Ended June 30, 2005

| Received from State | Total | Grant No. | Amount | Purpose |
|------------------------|-------------------|------------|------------|---|
| November-04 | \$ 64,066 | 2005001 | \$ 64,066 | Plan Implementation and District Operation |
| April-05 | \$ 50,000 | 2005001(2) | \$ 50,000 | Plan Implementation and District Operation |
| May-05 | \$ 171,077 | 2005108 | \$ 19,884 | Continental Cement Company |
| | | 2005109 | \$ 8,500 | Kan- Man Metal Recycling, Inc |
| | | 2005110 | \$ 3,000 | City of Macon Playground Equipment |
| | | 2005111 | \$ 14,893 | Monroe City R-1 High School bleacher renovation |
| | | 2005112 | \$ 77,000 | Missouri Biofuels, LLC |
| | | 2005113 | \$ 20,000 | City of Paris Glasphalt parking lot and overlay |
| | | 2005114 | \$ 8,800 | Pike County Sheltered Workshop |
| | | 2005115 | \$ 19,000 | City of Palmyra Recycling Program |
| June-05 | \$ 107,579 | 2005229 | \$ 107,579 | Mark Twain Waste to Energy Corporation |
| Total | \$ <u>392,722</u> | | | |

**MARK TWAIN SOLID WASTE MANAGEMENT DISTRICT
COMPOSITION OF CASH BALANCE
DECEMBER 31, 2006**

| <u>Project</u> | <u>Purpose</u> | <u>Obligated</u> |
|---|---|------------------|
| G2006001 | Hannibal High School Recycling | \$ 135 |
| G2006002 | City of Macon Playground Equipment | 0 |
| G2006003 | City of Hannibal Recycling | 4,200 |
| G2006004 | City of Paris Solarwall Air Heating | 39,396 |
| G2006005 | American Children Safety Network License Plate Recycling | 2,996 |
| G2006006 | Kan-Man Metal Recycling | 1,125 |
| G2006007 | Shelby County Motors Major Appliance Reclamation Project-Loader/Crusher | 2,978 |
| G2006008 | Mark Twain SWMD Region G Operations | 0 |
| G2006009 | Randolph County Abatement through Recycling | 12,500 |
| G2006010 | Mark Twain Habitat for Humanity Annual Building Project | 1,041 |
| G2006011 | City of Hannibal Recycling Center | 14,000 |
| G2006012 | Community Child Development Center Recycled Content Playground Equipment | 50,000 |
| G2006013 | City of Higbee City Park Improvements | 2,114 |
| G2006014 | Monroe City Sheltered Workshop | 1,890 |
| G2006015 | City of Moberly Recycling Facility | 1,843 |
| G2006016 | City of Palmyra Recycling Center | 48,311 |
| G2006017 | Northeast Missouri Correctional Center Food Waste Recycling | 37,066 |
| G2006018 | Mark Twain Waste to Energy Corp. Hercules WTE Facility | 0 |
| Total per quarterly project financial summary | | \$ 219,595 |

| | |
|---|-----------|
| Total per Quarterly Project Financial Summary Form as of December 31, 2006 | \$219,595 |
| Less: Bank balances at December 31, 2006- | |
| Balance in money market account | 61,078 |
| Balance in administration account | 2,764 |
| Amount of financial summary that exceeds cash balances | \$155,753 |