

Performance Audit Resolution
Region P – South Central Solid Waste Management District
July 1, 2008 through June 30, 2011

1. Board Meeting Minutes Not Signed and Dated

Auditor Recommendation:

We recommend the District ensure that all board meeting minutes are properly signed and dated by the board chairman or another board member and the secretary.

District Response:

The District agrees with the finding and recommendation. Signing and dating the meeting minutes after they have been approved, though not required by law, provides an extra layer of safety for the Executive Board and Full Council. The District agrees that we need to strengthen the system we use to safeguard our meeting records. The Executive Board will develop a procedural guideline for ensuring that all of the meeting minutes are signed and dated. At the December 2012 Executive Board meeting, all of the minutes lacking signatures and dates will be reviewed and amended to correct this deficiency.

SWMP Response:

The SWMP agrees with the auditor's recommendation. The audit found that Executive Board and full Council meeting minutes did not contain signatures and a date to verify Board or Council review and approval of the contents of the minutes. The minutes of Executive Board or Council meetings constitute the official record of the proceedings taking place during the meeting. Board or Council review and approval of such minutes is necessary for the District to ensure minutes are complete and accurately depict actions taken by the Board during a particular meeting.

The District's planned actions are responsive. However, finding #1 will remain open until copies of the following are submitted to the SWMP:

- The District's new meeting procedural guidelines;
- Signed and dated meeting minutes documenting the Board's and Council's review and approval of the meeting procedural guidelines; and
- Signed and dated Board and Council minutes for the six month period following approval of such changes by the District's Council and Executive Board to verify that corrective action has taken place.

2. Quarterly Project Financial Summary Reports Not Complete and Accurate

Auditor Recommendations:

We recommend the District:

- A. Separate the interest income and carryover project amounts on the quarterly project

financial summary report submitted to the DNR

- B. Ensure that the schedule presented in the independent financial audit report of the District properly represents the remaining amounts of monies in each project to agree with the quarterly project financial summary report at June 30 of each year.
- C. Ensure the quarterly project financial summary report for each quarter and submitted to the DNR properly states the ending cash and certificate of deposit balances that agree with the reconciled bank balance and the computer software system balance.

District Response:

The District agrees with the findings and recommendations. In 2008, a new rule said that districts could only keep up to \$20,000 in unobligated funds. Therefore, after 2008, the interest and unobligated carryover amounts were combined and reported as unobligated. The interest and grant carryover are kept separate and, in future reports, will be reported as two separate amounts. We will also work with our financial auditor to get an accurate listing in our next financial audit.

District grant funds are held in an account at Progressive Ozark Bank. Statements from Progressive Ozark Bank are reconciled to the 24th day of the month. The District has a certificate of deposit (CD) held at Landmark Bank. The balance of the CD is reported by Landmark Bank every three months on the 28th day of the month. Quarterly reports ask for the balance on the 30th day of the month. The reports are complete and amounts are accurate to the day that they are reported. Every effort will be made to reconcile all statement amounts to the 30th day of the month.

SWMP Response:

The SWMP agrees with the auditor's recommendations. This audit finding demonstrates that the District's financial reporting and accounting system has weaknesses resulting in the District certifying and submitting to the SWMP inaccurate financial information. Funds disbursed by SWMP to the District are placed at an unacceptable level of risk due to these system deficiencies. The audit found the reports prepared by the District were not accurate and balances did not properly reconcile between the audit report schedule, bank statement balance, and the computer software system balance. The audit found the cash balances:

- on the June 30, 2010 and 2009 quarterly project financial summary reports did not reconcile to the District's computer software system (reconciled bank balance and certificate of deposit balance as included in the District's software system) or to the amounts presented in the financial audit reports. This shows the District did not reconcile the accounting records to determine the financial position of the District.
- on the June 30, 2010 quarterly project financial summary report showed interest income of \$15,000 was used on three (3) different projects, however, both interest income and district grant carry-over funds were used. This shows that funds held and used by the District were not properly identified by source and accurately reported.
- on the June 30, 2011 quarterly project financial summary report carryover amounts for interest income and district grant funds unobligated and available for other projects was

not properly identified. This shows the District does not reconcile the accounting records to documentation related to grants and as a result fails to accurately report the status of grants and grants funds to the SWMP.

The District has failed to ensure its financial management system meets the requirements set forth in 10 CSR 80-9.050(7)(B) and the SWMP's General Terms and Conditions, I.I. The District's financial systems are required to adhere to generally accepted accounting principles including grant project tracking records that permit accurate preparation of quarterly project financial status reports. The accounting system must ensure the District's records are reliable and reflect project awards received, disbursements made, ending balances, and be reconcilable. While the District's Executive Board can delegate the work to prepare financial statements and reports, the Executive Board as a whole is ultimately responsible for financial reporting.

To fully resolve Finding #2, the District must take immediate action to correct the weaknesses in the financial management system. As proof of corrective action, no later than thirty (30) days following the close of the calendar quarter ended June 30, 2013, the District must provide copies:

- of financial reports demonstrating the District's financial management system (i.e., accounting system computer software or manual records) meets the requirements including identification of the sources of all funds reported and on hand at the District;
- of the District's quarterly project financial summary report reconciled to reports generated by the District's accounting system computer software or manual record system and that the accounting system is in balance; and
- of the District's bank statements including certificates of deposit reconciled to the accounting computer software system or manual record system balance and to the balances reported to the SWMP on the quarterly project financial status report.

Note: The District's comment that "In 2008, a new rule said that districts could only keep up to \$20,000 in unobligated funds." is irrelevant to Finding #2. The referenced requirement was put into place to keep solid waste management districts from arbitrarily maintaining excessive, unobligated cash balances that could have been awarded for subgrant projects. Specifically, the District Grant Rule at 10 CSR 80-9.050(2)(C)6 states . "At the end of a district's fiscal year, any district carryover funds and interest income in excess of twenty thousand dollars (\$20,000) shall be allocated for projects other than district operations in the district's next request for project proposals in accordance with section 260.335, RSMo, unless approved by the department."

3. Bank Reconciliations Not Formally Prepared and Approved by Board

Auditor Recommendations:

We recommend the District:

- A. Require a formally prepared monthly bank reconciliation to be reviewed and approved, signed, and dated by the Executive Board monthly.

- B. Require a board member to assist in the preparation of the monthly bank reconciliation to ensure the accounting records are accurate, and that the bank balance reconciles to the computer software system balance monthly.

District Response:

The District agrees with the findings and recommendations. A formal monthly reconciliation can and will be prepared with the assistance of a board member for review and approval of the Executive Board.

SWMP Response:

The SWMP agrees with the auditor's recommendation. Bank reconciliation involves comparing records of transactions and accounting system balances to the bank's records to ensure a common understanding of the cash available to meet the Executive Board's needs. At a minimum, a representative of the District's Executive Board with an understanding of financial management should review the District's transactions and supporting documentation to ensure the District's financial records are in agreement with the bank's records. This Executive Board member can lead the discussion of the District's financial reports presented during the Executive Board meeting.

As an example, of why reconciliation is essential to a clear understanding of the District's cash position, the District's outstanding checks will not show up on the bank statement as the bank is not yet aware of the transactions and the District is not yet aware of any service charges or deposits of interest on amounts held in the bank -- until the bank statement is received, reconciliation has occurred and appropriate transactions, if needed, are entered into the District's accounting system to balance the cash and other accounts. Timely and accurate completion of monthly bank reconciliations including presentation to and approval by the Board is necessary to ensure bank accounts are in agreement with accounting records and to assist in detecting and correcting errors, omissions or irregularities.

As stated in the SWMP's response to the District's FY2011 financial audit report, the District will need to put into place compensating controls sufficient to ensure protection of district grant funds which are public monies. With the District's sole employees being spouses, District Executive Board involvement is critical to proper management of the District's assets. A fundamental element of internal control is the segregation of certain key duties. The basic idea underlying segregation of duties is that no employee or group of employees should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. Segregation of duties also protects employees from allegations of wrongdoing. In general, the principal incompatible duties requiring segregation are:

- Custody of assets including cash and cash equivalents such as certificates of deposit;
- Authorization or approval of related transactions affecting those assets; and
- Recording or reporting of related transactions.

Systems of internal control rely on assigning certain responsibilities to different individuals, so that incompatible functions are segregated.

The District's planned actions appear responsive. However, Finding #3 will remain open until copies of the bank reconciliations for March through July 2013 following review, signature and

dating by a District Executive Board member and Board minutes documenting that financial statements and a discussion occurred at the meeting are submitted to the SWMP.

Note: Refer back to Finding #2 above for corrective action related to deficiencies found in the District's financial management and accounting system pursuant to requirements in 10 CSR 80-9.050(7)(B) and the SWMP's General Terms and Conditions, I.I. which correlate to this Finding #3.

**4. District Expenditure and Payment Procedures Need Improvement
Questioned Costs \$494.42 and \$4,200**

Auditor Recommendations:

We recommend the District:

- A. Ensure that two signatures are recorded on each check before sending them out for payment.
- B. Ensure that a board member reviews in detail each invoice and other supporting documentation when checks are written and document the review by recording their initials and date on the invoices.
- C. Establish a written credit card policy regarding the Board approved dollar limit on the credit card, transaction limits, use of the credit card for specific purposes, and the pre-approval of the use of the card.
- D. Ensure that a board member reviews each monthly credit card statement in detail and documents the review by recording their initials and date on the statement. The credit card statement must also be attached to the request for payment along with the sales invoice when paying various invoices related to the use of the credit card to be reviewed at the time of approval of the request for payment.
- E. Ensure that all invoices are properly canceled after payment by recording a date, check number, initials or signature, and a paid cancellation on the invoice.
- F. Ensure that sales tax is not paid on any invoice.
- G. Ensure that formal or informal bids are documented on all purchases required by state purchasing procedures and that the bid information is included in the project file.
- H. Discuss and resolve the questioned costs with DNR.

District Response:

The District agrees with the findings and recommendations. The Executive Board agrees that we need to strengthen the system we use to safeguard our expenditures and payments. The Executive Board will develop a procedural guideline for use of the district credit card, for ensuring that all of the invoices are marked "PAID", signed, dated, and show the check number

of the payment. District personnel will go through the files and make sure that all invoices are marked PAID and the check number and date paid are included on the invoice.

District personnel went through the files and determined that a total of \$494.42 was paid in sales taxes over the three year period on several grant projects. This was inadvertent and not intentional misuse. District personnel will carry and use the tax-exempt letter with them at all times so that this situation does not happen again.

The baler was a mini-grant from the Technical Assistance/Plan Implementation grant for equipment to Ozark Green to help establish a recycling center in Houston. They made many calls getting prices on balers for this grant and will send a statement for the file.

Occasionally, the Full Council invites children to come to the meeting to present information on recycling programs at schools as part of education seminars.

SWMP Response:

The SWMP agrees with the auditor's recommendations. The district is required to have in place a system of internal controls designed and maintained to safeguard assets and ensure the proper use of district grant funds. If internal control systems are not adequately designed or followed it is difficult for the District's Executive Board to determine whether district grant funds are properly used and achieve intended results. The Executive Board's review and oversight of the expenditure and payment functions performed by the District Coordinator is necessary to provide reasonable assurance that assets and resources entrusted to the District's care are used in accordance with all laws, regulations, general and special terms and conditions, and sound business practices. Adequate controls will assist in ensuring assets are safeguarded from waste, loss and abuse and may assist in protecting District employees from potential allegations of misuse.

The Executive Board needs to establish and enforce policies and procedures governing expenditures and payments including a requirement for full documentation and establishment of controls to ensure the policies and procedures are consistently followed. Practices to be instituted and made part of the Districts' Policies and Procedures include the following:

- Two authorized signatures required on all district checks. This ensures that two people must agree that the check is legitimate and that the payment is appropriate. This curbs direct theft (where an individual with signing authority simply writes checks to himself) and indirect theft (where one individual creates a fake vendor that bills the district). Two sets of eyes are more likely to discover such fraud.
- All purchases are pre-approved by the District's Executive Board and a designated board member signs as authorizing the purchase. This requirement provides the Board with assurance that all expenditures are authorized and properly agreed to before the District's funds are committed, that payments are made to the right payee/vendor, and such payments are for the correct amount and on time.
- Satisfactory receipt of goods or services purchased should be confirmed before payment is made. A signature and date should be required on the packing slip, acknowledging receipt of goods and services purchased. If a packing slip is not available, the receipt of goods and services should be noted (signature/date received) and verified on the invoice.

- Prior to paying, invoices should be reviewed for accuracy and appropriateness of charges, including a review to determine the District is not billed for sales taxes. The invoices should be compared to purchase orders and receiving reports. Discrepancies in purchase orders, receiving reports and vendor's invoices should be reviewed, investigated, and resolved prior to payment of the invoice.
- All requests for payment received by the Board must be accompanied by itemized invoices or other supporting documentation and must be reviewed and approved by signing and dating.
- Credit card payments must be accompanied by the monthly statement and appropriate supporting documentation, such as itemized invoices and cash register receipts. The cardholder, in this case the District Coordinator, should be required to assemble all required documentation before submitting the statement for review and payment approval by the District's Executive Board. The Board's review and approval of all requests for payment of credit cards should be documented by a board member's signature and date.
- Invoices approved for payment should be marked paid or otherwise cancelled to avoid duplicate payment. The check number and pay date should also be noted on the invoice or other supporting documentation. Annotating documents as paid will help ensure that duplicate payments are not made.

The Executive Board must review the District's internal control design and accounting processes and implement changes to ensure the District achieves compliance with the requirements to ensure assets are properly controlled, accounted for, and safeguarded.

Finding #4 will remain open until the District provides a copy of the written policies and procedures adopted by the District to strengthen internal controls related to the expenditure and payment functions. Amended policies and procedures will need to ensure all transactions are accounted for properly and assets are adequately safeguarded, thus minimizing the risk of loss, theft, or misuse of funds through unauthorized/improper expenditures. The district should also submit a copy of the signed minutes documenting the Board's approval of the amended internal control policies and procedures.

In regard to the Questioned Costs, sales taxes per the District Grant Rule 10 CSR 80-9.050(D)2.C. are ineligible for district grant funding. Sales taxes of \$494.42 were paid from grant funds. Unless documentation is provided to the SWMP within 30 days of the date of this letter showing district grant funds were not used to pay the sales tax, this amount, \$494.42, is disallowed. Unless documentation is provided to the SWMP within 30 days of the date of this letter showing the requirements of 1 CSR 40 and the SWMP's General Terms and Conditions related to bidding and procurement of the baler were met, the amount paid for the baler \$4,200, is disallowed. This serves as notice that the amounts will be withheld pursuant to 10 CSR 80-9.050(9)(B) and the amounts will be reallocated to compliant districts as set forth in 10 CSR 80-9.050(9)(E).

5. Grant Administration Requirements Not in Compliance with the General Terms and Conditions

Auditor Recommendations:

We recommend the District:

- A. Consult with the DNR on the proper requirement on the withholding of the 15% retainage fee on each project funded as outlined in its policy document.
- B. Require a formal statement from the subgrantee annually that indicates that the equipment items are still being used for the intent of the project, proper insurance is being carried, and any other items as necessary.
- C. Require the use of a chasing arrow symbol on at least one sheet of paper sent from the District office as required in the General Terms and Conditions.

District Response:

The District does not agree with the findings and recommendations. The auditor was given copies of the District's policies on payments directly to vendors and payment of retainage that discusses this area. The District believes this covers the requirements of the Terms and Conditions and the FAAs.

The District Coordinator visits with people and their projects often. The District has two notebooks of pictures of the equipment in use on projects. We will make a "use" statement for subgrantees to sign acknowledging that the pictures we take of them and the items, showing the items in use, are of items purchased with grant funds and that the items are being used appropriately.

The District uses the same type of 100% recycled paper as the Solid Waste Program at DNR. This is one of the General Terms and Conditions that may need to be revised as it promotes an inaccurate use of the "Chasing Arrow" symbol. The universal symbol is an internationally recognized symbol used to designate recyclable materials. The District has been working on a logo that will be included on the District's letterhead that will include a symbol affirming its use of recycled materials.

SWMP Response:

The SWMP agrees with the auditor's recommendation. The District Grant Rule, 10 CSR 80-9.050(7)(D) states "Payments to grant recipients shall be on a reimbursement basis. The Executive Board shall retain fifteen percent (15%) of the funds from the recipient until the project is complete. A project shall be deemed complete when the project period has ended and the Board gives approval to the grant recipient's final report and the final accounting of project expenditures. The district may make payment directly to a vendor instead of reimbursing the grant recipient provided the Executive Board approves the direct payment, goods or services being purchased by the grant recipient have been received, and the Executive Board retains fifteen percent (15%) of the funds until completion of the grant project. For reimbursements or direct payments, the district may release the fifteen percent (15%) retainage prior to completion of the grant project with prior approval of the Executive Board and the department." The audit found the District did not withhold 15% of the award until the Executive Board approved the subgrantee's final report. No retainage was withheld from payments for any of the projects. In order to document the District's practices, clearly stated policies are needed and should be followed. Copies of the district's policies on file at the SWMP for the past three fiscal years and referenced in the District's Response above do not include a reference or a provision for early release of the 15% retainage.

The audit found that the District's letterhead contained a footer describing the recycled content of the paper; however, the chasing arrows logo was not displayed on the letterhead. The use of the chasing arrows logo has been in the General Terms and Conditions for a number of years to encourage both use of recycled content paper and to indicate the paper is recyclable. The primary goal of the SWMP and the solid waste management districts is to educate citizens about the use of materials having recycled content and materials/products that are recyclable so that these materials are diverted from landfilling. The District has failed to comply with this most basic of the General Terms and Conditions for program participation and must take appropriate corrective action.

Additionally, the District Coordinator makes on-site visits and takes pictures of equipment in use on the day of her visit, the audit found the District did not require subgrantees to submit the annual use statement certifying the subgrantee uses equipment for subgrant approved project activities. The District must establish and implement a policy and related procedures to ensure this use statement is obtained annually from subgrantees for equipment purchased, in whole or in part, with Solid Waste Management Fund monies.

To fully resolve Finding #5 within 60 days from the date of this communication, the District must provide to SWMP a copy of written policies and associated procedures formally adopted by the District and as recorded within the minutes of the District's Executive Board:

- that ensure compliance with the requirement for 15% retainage on subgrants. The District may meet this requirement by either submitting a policy and associated procedures for the withholding of the 15% retainage amount until Executive Board approval of the subgrantee's final project report and final accounting of expenditures or a policy and associated procedures for the District's subgrantees to request from the District and the SWMP prior approval for early release of retainage.
- that ensure compliance with the requirement for a subgrantee to annually sign and date an equipment use statement certifying the equipment purchased, in whole or in part, with Solid Waste Management Fund monies is being used only for the purposes stated in the subgrant.

Additionally by June 30, 2013, the district must provide to SWMP a copy of the FY2013 equipment use statements as verification of the district's compliance with the policy, a copy of the District's letterhead incorporating use of the chasing arrows symbol and either copies of invoices paid by the District withholding the 15% retainage or documentation of the process used or to be used to request early release of retainage.

6. Payroll and Personnel Procedures Are Questionable

Auditor Recommendations:

We recommend the District:

- A. Consult with a tax specialist concerning the wages paid separately to the District Coordinator on the special projects versus wages paid as the District Coordinator to determine whether Social Security and Medicare should have been withheld and the District's portion to be paid also.

- B. Consult with a tax specialist or contact the Department of Labor regarding the use of day laborers or workers and how they should be compensated, either as employees or as independent contractors. The use of workers for special projects should be advertised in local newspapers to give all citizens a chance at deciding on wanting employment with the District on these projects. All timesheets should be signed and dated as approved by a board member.

District Response:

The District partially agrees with the findings and recommendations. As the auditor states in the second paragraph of part A, "It is not clear." There have been at least a few opinions on how additional workers and the District Coordinator should be paid for the labor they provide on these important District-wide projects. In 2009 and 2010, all of the workers, including the District Coordinator, were paid for their additional work on the collections from the businesses bank account of the District Coordinator called "Backwoods." Backwoods is the name of the farm and farm account of the District Coordinator and her husband. Backwoods was reimbursed by the District. Backwoods filed 1099-MISC forms for all of the workers. The workers paid the taxes on the wages they earned at the collections as if they were private contractors. In 2011, the District Coordinator, as well as some of the workers were paid directly by the District. The District filed 1099-MISC forms for 2011 and again the workers shouldered the entire tax burden for their wages. In an effort to resolve this issue, a tax attorney was consulted. Starting in 2013, all additional laborers used on projects will be classified as employees of the District and will have Social Security and Medicare deducted from their check and matched by the District. The workers' earnings will be reported on a W-2 form. The additional funds needed for match will come from the funds of the individual grant project.

Additionally, in response to the auditor's query that concerning Social Security and Medicare on part of the wages received by the District Coordinator and the affect on the retirement SEP plan the Social Security and Medicare amounts on the additional wages have been calculated for 2012 for both the District Coordinator and the District. This sum will be paid by both parties as part of the next payroll period. The SEP account is not affected as it is a set amount rather than a percentage.

SWMP Response:

The SWMP agrees with the auditor's recommendation. The issues in Findings #6 and #8 overlap and appear non-severable; therefore, the SWMP's response to both Findings #6 and #8 is found at Finding #8 below.

7. District Office Location and Access to Public Records in Question

Auditor Recommendation:

We recommend the District review the need for recording its records on the District's website for use by the general public and also review the current office location to determine that it meets the general public needs for access to conduct business. The Executive Board should consult with outside specialists to determine that the District office at the personal residence meets required ADA specifications.

District Response:

For whatever reason, the SWMP at DNR has decided after 19 years, they do not want the Region P office to be located in the residence of the District Coordinator. In the “Terms and Conditions” dated May 5, 2012, public access required by the Sunshine Law is given as the reason. The Missouri Attorney General said that this was a misinterpretation of the law. So, other motives to close the office are being tried. This is a case where the auditor may have allowed his integrity to be compromised by his financial insecurity. Even before this issue was instigated, it was decided by the District Coordinator that the Region P office would be moved. The auditor’s report is misleading concerning the office location and the implications are ridiculous and insulting and will be challenged.

The Region P office is located off State Highway 17 fifteen miles southeast of the City of Houston, Missouri, and nine miles north of the City of Summersville, Missouri, in Texas County, Missouri. We believe that that auditor was coerced into declaring that a white chat driveway is a physical impairment to the public wanting to receive information from the District office. The District is not sure what “records” the DNR would have us put on the Internet. We will provide those records as necessary. While the District does not have a Website, District collection activities and other information are listed with EARTH 911, and other websites. Information on how to contact the District can be obtained from the DNR site. An internet search of “South Central Solid Waste Management District/Region P/in Eunice, MO” or most any combination of those words will get over 13 million responses. A search of Google maps will give directions directly to the office. The general public, DNR officials, delivery trucks, even state legislatures have found their way to the office to get information on the District and its many activities. Many people access district grant forms over the internet. We have had two sunshine law requests for information in 19 years. One was handled by sending information over the internet; the other required a lobbyist to drive to the office. Using the United States postal service is still a viable way to send and obtain information. The General Public has more access to the South Central Solid Waste Management District than most offices because it is a home office. The phone is answered early in the morning and on nights and weekends as well as every day someone is in the office.

There is a sign on the District office door giving the time and days of regular office hours. There is a sign at the gate near the driveway turn-around giving the office hours. The sign also gives emergency contact information if the gate and thus the office is closed. The gate is closed and locked to protect the District equipment and records when no one is on site.

The auditor was given information on the Americans with Disabilities Act accessibility requirements from the National Institute on Disability and Rehabilitation Research. The auditor was also given information on how to contact that agency (800-949-4232) to verify that the District office needed only to provide what was “readily available”. The auditor will continue to apply terms and conditions to the District office that were not even in effect for the audit term being reviewed. The auditor tries to apply terms and conditions that are arbitrary and capricious and exceed the law to look for reasons that the District office is not suitable. The office at 5436 Hwy 17 in Eunice, Mo will close by the end of FY 2013 (June 30, 2013) by choice, not by force from DNR.

Auditor's Comment: Upon contacting the agency noted in the response, the individual at the agency we spoke with indicated that the location of the office may be questionable to people but the District mainly needs to provide for "program accessibility" whereby records are to be readily available to everyone by the same means. The individual at the agency also indicated that the state that controls the grant funding of the District is ultimately responsible for ensuring that an office is ADA compliant or that total program accessibility is met.

SWMP Response:

The SWMP concurs, in principal, with the auditor's recommendation. Finding #4 will remain open until the District complies by providing total program accessibility to everyone by the same means. The District's Executive Board will need to provide a copy of documentation showing compliance with this requirement to the SWMP.

In regard to the requirement for solid waste management districts to have their grant applications and other records readily available for use and review by the general public including the option of using the Internet is effective for periods beginning on or after July 1, 2013. Therefore, this requirement was not in effect during the audit period.

The option for solid waste management districts to have their grant applications and other records available to the public via the Internet is included in the General Terms and Conditions for periods beginning on or after July 1, 2013 as explained at the Annual District Planners Training held on June 6, 2012 and attended by the District Coordinator. The SWMP's General Terms and Conditions for FY14, which begins on July 1, 2013, require solid waste management districts to either have a principal designated office with established office hours or provide all district grant records and inclusive of those postings of meetings and other public notices that are open records under Chapter 610 RSMo, through an Internet website. Principal designated offices of solid waste management districts in order to be open and convenient for the public are required to be located in commercial, governmental or stand-alone buildings not used as a residence.

For the 5 year period (FY 2009 – 2013), Table 1 below, details the grant awards made by the South Central Solid Waste Management District's Executive Board that appear to indicate a clear pattern of similar grant awards to the same organizations and individuals. Sharing and making documents available to the general public including provision of such information via the Internet is encouraged to ensure all citizens have an equal opportunity to apply and receive a grant.

Table I
South Central Missouri Solid Waste Management District
FY 2009 - FY 2013 District Grants

Title of Award	Project #	FY 2013	Project #	FY 2012	Project #	FY2011	Project #	FY2010	Project #	FY2009	Project Manager	
District Operations									2009-001	\$ 82,217	Gary Collins, Board Chair	
	2013-001	\$ 67,500	2012-001	\$ 81,500	2011-001	\$ 81,500	2010-001	\$ 85,000			Lynda Roehl	
Plan Implementation – Technical Assistance	2013-002	\$ 25,000	2012-002	\$ 38,100	2011-002	\$ 42,500	2010-002	\$ 50,000	2009-002	\$ 50,000	Lynda Roehl	
HHW Collections	2013-003	\$ 30,000	2012-003	\$ 30,000	2011-003	\$ 30,000	2010-003	\$ 35,000	2009-003	\$ 30,000	Lynda Roehl	
E-waste Collections	2013-004	\$ 20,000	2012-004	\$ 20,000	2011-004	\$ 30,000	2010-004	\$ 35,000	2009-004	\$ 30,000	Lynda Roehl	
Scrap Tire Collections	2013-005	\$ 15,000	2012-005	\$ 20,000	2011-005	\$ 24,000	2010-005	\$ 30,000	2009-005	\$ 32,000	Lynda Roehl	
Illegal Dumping Identification, Clean-up and Prevention	2013-006	\$ 15,000			2011-006	\$ 25,000	2010-006	\$ 30,000	2009-006	\$ 25,000	Lynda Roehl	
			2012-006	\$ 20,000							Tim Roehl	
Shannon County Commission Recycling	2013-008	\$ 10,600	2012-007	\$ 11,800							Lynda Roehl	
							2010-011	\$ 11,800			Dale Atchley/Lynda Roehl	
									2009-009	\$ 11,800	Tony Orchard	
Texas County Commission Recycling			2012-008	\$ 12,960			2010-008	\$ 17,920			Keith Morgan	
Ozark County Commission Recycling			2012-009	\$ 14,560	2011-010	\$ 15,600	2010-010	\$ 15,600	2009-007	\$ 14,560	David Morrison	
Do Co Inc. – Sheltered Workshop Recycling			2012-010	\$ 10,400	2011-012	\$ 15,600	2010-012	\$ 15,600	2009-008	\$ 14,560	Jim Brown	
Oregon County Commission Recycling	2013-007	\$ 14,560									John Wrenfrow	
						2011-007	\$ 15,600	2010-007	\$ 7,158	2009-010	\$ 25,000	Larry Brock
						2011-011	\$ 15,600					
Ozark Green's Texas County Recycling Program					2011-009	\$ 17,500					Lynda Roehl	
City of Mountain View							2010-009	\$ 15,000			Dave Abbeyl	

8. Administrative Contract and Contract with Backwoods Questionable

Auditor Recommendation:

We recommend the District:

- A. Amend the administrative services contract with the District Coordinator to include the payment provided by the District for the use of the Internet, cell phone, telephone, and the personal residence at West Plains.
- B. Review the state purchasing procedures regarding the services provided by Backwoods to ensure that proper purchasing procedures are followed including the solicitation of competitive bids for administrative services over \$25,000 as required by state law. The Executive Board should also review the conflict of interest situation and related party transactions on services provided to the District to ensure that state laws are not violated.

District Response:

The District partially agrees with the findings and recommendations. Any new contracts between the District and service providers will specify what services will be provided and the cost of those services.

Backwoods Services LLC was a separate entity that contracted with the District from August 2005 to August 2008. In 2008, Backwoods Services LLC dropped its incorporation. In 2009 and 2010 “Backwoods” contracted with the District.

Another contract has been between the District and the District Coordinator. This was an employee management contract that set out the duties she will perform for the District and the compensation that she will receive for satisfactorily performing those duties. It should be noted that the Roehls provided the office space, equipment, and storage space for District supplies and equipment for several years. The value was used as match for the District Operations Grant from 1993 until 2006. It was suggested in a prior audit that the Roehls do an actual charge for the office and storage when match was no longer required. The fee paid was only \$200/month for rent and \$200/month for storage. It has not increased.

Comparison information on the cost of renting other office space and protected storage space has been evaluated. Similar size office space without room to store equipment and supplies would rent for \$450/month. The District would have to supply its own office equipment or add that to the rental price. As mentioned before, the office of the South Central Solid Waste District will be moved to a new location by July 1, 2013, the start of FY 2014.

This was not “payment for service” but was reimbursement for mileage, supplies, equipment, disposal, and costs to hire day laborers. The auditor was given lists of the reimbursements by grant project so he knows; he even refers to it as “reimbursements” in the last bulleted statement. It should also be noted there was never a charge for the use of the Roehl’s business account money. No state money was ever placed in this account only reimbursement after payment. Basically, this was a free short-term loan for District Operations.

The District Coordinator never attempted to hide the fact that her granddaughter works with her on many projects. She is well known by the Executive Board members.

In the future, the District will advertise for trained part-time employees to work on projects. Backwoods will no longer be used to pay bills for goods and services during the monthly operations. A separate account will be set up that the employees of the District will use to pay for goods and services with guidelines set up by the District Board.

SWMP Response:

The SWMP concurs, in principal, with the auditor's recommendation. The District has failed to maintain records clearly and transparently demonstrating to the SWMP and the public the legitimacy of their business transactions.

The use of the District Coordinator's company "Backwoods" is not an acceptable practice. The District is required by the District Grant Rule, 10 CSR 80-9.050(7)(B), to have in place written contracts and appropriate supporting documentation for the provision of all services identified as contractual within applications submitted to the SWMP. The District must ensure contracted services are appropriately bid with specifications defining the scope of services to be provided; are acquired through a properly documented competitive selection process; have clear contract terms for performance; are in writing and signed by appropriate authorities, and that related payments are adequately supported and in compliance with the contract terms.

The District Grant Rule, 10 CSR 80-9.050(7)(I) requires that the Executive Board shall use a competitive bid process to obtain administrative services, office space rental, and other district operations services, except for employees who are directly employed by the district. The District Coordinator has been receiving a salary/retirement benefits, compensation for working at collection events, rent for use of a portion of her home for the District's office and rent for a portion of her property for storage space for the District's trailer, telephone, Internet and cell phone reimbursement and reimbursement for various expenses. Additionally, the exact nature of the relationship between the District Coordinator, her spouse, and the day laborers including the District Coordinator's granddaughter and the District is not well defined. These issues related to procurement, contracting and the District's use of district grant funds for these purposes have spanned several fiscal years and need to be finally resolved. A final determination and any tax implications to the District and potentially to these individuals once the exact nature of the employee/contractor relationship is known, is vested with the U.S. Internal Revenue Service, U.S. Social Security Administration, U.S. Labor Department and the Missouri Department of Revenue and Department of Labor and Industrial Relations.

Beginning on October 25, 2012, the SWMP received a series of documents from the District indicating plans to bid for contracted administrative services in January 2013 and that the District's Executive Board would review the Request for Proposal (RFP) during the Board's December 6, 2012 meeting (Copies attached). The SWMP concurs the District's planned procurement action is appropriate to resolve the outstanding issues related to the relationship existing between the District and its employees/contractors and the employees/contractors' company, Backwoods, which has been providing payment services for goods and services obtained for the District in amounts in excess of the bid requirements. The District's submitted application states a contract will be in place by March 1, 2013. The District to fully resolve this finding must provide confirmation and appropriate documentation including affidavits of

publication that the bid process was completed and appropriate evaluation of submittals occurred prior to contract(s) award. The SWMP has approval authority over contracts awarded by the District, please ensure that prior to final execution the contract and related documentation is provided to the SWMP for our action.

After the District's Executive Board has awarded contracts, the Board must ensure that administrative and other expenses are supported by itemized invoices and other documentation needed to support the expenditures are for allowable services provided to the District. Particular attention needs to be given to the District's policies and procedures and contract requirements for record retention to ensure documentation including required signatures are retained to demonstrate the District's compliance with regulatory requirements.

Additionally, the District needs to implement an adequate conflict of interest policy and related procedures that provide for annual disclosure statements and review of potential conflicts of interest, related party transactions and ensures that conflicts are prevented or resolved. The District's policy must require Board members and employees to disclose any potential conflicts of interest including related party transactions and any transaction involving less than arm's length dealing and how the District will resolve such issues.

Findings #6 and #8, will remain open until the District provides copies of bid solicitations for contract services, supporting documentation and copies of executed contracts. In addition, the District must provide a copy of the conflict of interest policy and related procedures, signed minutes documenting the Board review and approval of such policy and procedures, and copies of individual disclosure statements signed by Executive Board members and employees to the SWMP no later than 60 days from the date of this communication. In addition, no later than 6 months from the date of this communication, a copy or copies of final determinations of the status of workers as contractors or employees provided by federal and/or state agencies to the District will need to be provided to SWMP.

9. Lack of Adequate Board Oversight over District Expenditures

Auditor Recommendation:

We recommend the District institute policies and procedures regarding the preparation, review, and approval of bank reconciliations, bank statements, authorized check signatures on checks, invoices, and credit card statements, and ensure that proper bids are taken on all purchases in accordance with state purchasing procedures.

District Response:

The District Board agrees with these last findings. Every attempt will be made to provide an extra layer of oversight on all District expenditures.

SWMP Response:

The SWMP agrees with the auditor's recommendation. The District's Executive Board has failed to ensure its practices comply with the Financial Assistance Agreement, the SWMP's General Terms and Conditions, the Solid Waste Management Law (i.e., 260.300 to 260.345

RSMo) and associated regulations (i.e., 10 CSR 80-9.050, 1 CSR 40-1.050 Procedures for Solicitation, Receipt of Bids, and Award and Administration of Contracts).

The District's Executive Board must take a pro-active role in the management of the District to ensure compliance is met and maintained and program goals and objectives are attained. Responsibility for acceptance and use of district grant funds is vested in the District's Council and Executive Board. The District's Executive Board to fully resolve Finding #9 must address to the satisfaction of the SWMP all findings from this audit report no later than six months from the date of this communication.

This communication serves as notice to the District's Executive Board that failure by the District to provide documentation of compliance with the above requirements by September 1, 2013 will result in funding to the District being withheld beginning on October 1, 2013 until compliance is achieved.