

Performance Audit Follow-up
Region N – Southwest Missouri Solid Waste Management District
January 1, 2006 - December 31, 2007

1. Failure to Comply with Sunshine Law

Auditor Recommendation:

We recommend that the District be required to immediately adopt all required forms of documentation as stipulated by the Missouri Sunshine Law.

District Response:

The District stated, "The District will comply with the Sunshine Law."

SWMP Response:

The SWMP concurs with the auditor's recommendation. The District is required to comply with all the requirements of RSMo Chapter 610, commonly referred to as Missouri Sunshine Law.

SWMP Recommendation:

The District must take corrective action to ensure the deficiencies identified by the auditors are fully corrected. Compliance with state law related to open meetings and public records including the requirements related to notices and minutes of Executive Board and Council meetings, is a condition of the grant award. Failure of the District to comply places the District at risk for loss of funding.

Please provide to the SWMP a copy of the written policies and procedures adopted by the District to ensure Executive Board and Council meetings are noticed and documented as required by the Missouri Sunshine Law. In order to fully resolve Finding #1, please submit to the SWMP a copy of amended District's bylaws, policies and procedures approved by the Board and a copy of the signed meeting minutes documenting the Board's action. A copy of meeting minutes for the period January 1 through June 30, 2011 should be submitted by the District with the quarterly reports to document the District's compliance.

2. Executive Board and Council Did Not Meet as Required

Auditor Recommendation:

We recommend that the District comply with the bylaws requirements concerning meetings and adequately document reasons for cancelled Executive Board meetings.

District Response:

The District stated, "The District agrees and will correct."

SWMP Response:

The SWMP concurs with the auditor's recommendation. The Executive Board and Council must comply with the District's bylaws requirements related to meetings, including the requirement for a quorum to be present to allow for District business to be conducted. Reasons for cancelled meetings should be adequately documented.

SWMP Recommendation:

The SWMP recommends the Executive Board review and amend, as needed, the District's bylaws and policies and procedures related to frequency and attendance at meetings including specific consequences for failure to attend. Reasons for meeting cancellations should be adequately documented by recording in the official minutes of the District.

In order to resolve Finding #2, please submit to the SWMP a copy of amended District's bylaws, policies and procedures approved by the Board and a copy of the signed meeting minutes documenting the Board's action.

3. Payroll Procedural Controls Inadequate

Auditor Recommendation:

We recommend that the District disburse paychecks only after the pay period end and that compensatory time tracking is reviewed by a Board member.

District Response:

The District stated "The District needs to know what payroll sheets that need to be corrected."

SWMP Response:

The SWMP concurs with the auditor's recommendation in regard to paycheck disbursement and board review of time accounting. The auditor found of the ten payroll checks examined nine were issued in advance of the pay period ending date. As a result, the District's employee received payment for hours yet to be worked. Such payroll advances appear to constitute a loan, and as such are not an allowable use of solid waste management funds. In addition, it is not prudent for the District to compensate employees in advance, doing so could result in the District paying an individual for services that are not performed.

The audit also found that of ten timesheets reviewed two contained errors. These errors were not detected because payroll duties are not segregated. Additionally, payroll expenditures and documentation are not independently reviewed and approved by an Executive Board member. When proper segregation of duties cannot be achieved, timely reviews of the records by a board member must be performed and documented.

SWMP Recommendation:

The District is required to establish adequate internal controls over the payroll function. The District will need to discontinue the practice of paying employees in advance and a board member needs to begin reviewing and approving timesheets and payroll transactions.

The SWMP recommends the Executive Board amend, as needed, the District's policies and procedures related to payroll to ensure they prevent unauthorized payroll advances and ensure adequate documentation of time worked and leave taken each pay period. Detailed timesheets reviewed and approved by a board member are necessary to document actual hours worked and substantiate payroll expenditures.

In order to resolve Finding #3, please submit to the SWMP a copy of District's payroll policies and procedures approved by the Board and a copy of the signed meeting minutes documenting the Board's action.

4. Personnel Files Incomplete

Auditor Recommendation:

We recommend the District maintain a personnel file with required documentation.

District Response:

The District stated "The W-4 documentation was found and the District has filled out I-9 documentation."

SWMP Response:

The SWMP concurs with the auditor's recommendation. The District must maintain complete personnel files to adequately document each individual's employment status and pay information, including authorization of withholdings and deductions and any other personnel actions.

SWMP Recommendation:

To resolve Finding #4, please provide to the SWMP a copy of the written policies and procedures adopted by the District to ensure all individuals receiving salaries or wages from the District have a properly completed Employee Withholding Allowance Certificate (W-4) on file and to ensure the District completes and retains an Employment Eligibility Verification Form (I-9) for each individual hired.

5. Incomplete Security Interest

Auditor Recommendation:

We recommend that the District create a security interest document that adequately identifies the District's interest.

District Response:

The District stated "District agrees to comply."

SWMP Response:

The SWMP concurs with the auditor's recommendation. The District needs to ensure that the District's interest is adequately identified in the security interest document provided by the subgrantee.

SWMP Recommendation:

To resolve Finding #5, please provide to the SWMP a copy of the written policies and procedures adopted by the District to ensure security interest documents are correct and complete and a copy of the signed meeting minutes documenting the Board's approval of the amendments. Copies of security documents for any equipment purchased between January 1 and June 30 should be submitted to the SWMP by the District with the quarterly reports for this period.

6. UCC Financing Statement Not Filed

Auditor Recommendation:

We recommend that the District be required to implement procedures to ensure that the District is in compliance with state regulations pertaining to the timely filing of UCC Financing Statements.

District Response:

The District stated "District agrees and will comply."

SWMP Response:

The SWMP concurs with the auditor's recommendation. The District is required to ensure the timely filing of UCC Financing Statements.

SWMP Recommendation:

To resolve Finding #6, please provide to the SWMP a copy of the written policies and procedures adopted by the District to ensure accurate and timely filing of the UCC financing statements and a copy of the signed meeting minutes documenting the Board's approval of the amendments.

7. Procedures for Closing Grants Inadequate

Auditor Recommendation:

We recommend the District timely file final reports with MDNR. Additionally, we recommend that Board approval of the final report and its accounting and issuance of the final check be done after all the necessary documents have been received from the subgrantee.

District Response:

The District stated, "District agrees and will comply."

SWMP Response:

The SWMP agrees with the auditor's recommendation. The Executive Board needs to ensure the District has received all the necessary documentation from the subgrantee before approving the final report and final accounting of expenditures and authorizing final payment.

SWMP Recommendation:

To resolve Finding #7, please provide to the SWMP a copy of the written policies and procedures adopted by the District to ensure timely submission of final reports, within 30 days after the project is complete and the final report and final accounting of expenditures is received, reviewed and approved by the Executive Board. Additionally, the District should provide the SWMP a copy of the signed meeting minutes documenting the Board's approval of the amendments.

8. Property Lacking MDNR Identification as Funding Source

Auditor Recommendation:

We recommend the District place a MDNR sticker on all equipment purchased with MDNR funds.

District Response:

The District stated, "These tags have been purchased and are in the process of being distributed."

SWMP Response:

The SWMP agrees with the auditor's recommendation.

SWMP Recommendation:

The District indicated it has acquired identification tags to affix on equipment purchased with district grant funds. To fully resolve Finding # 8, please provide to the SWMP a copy of the District's policies and procedures related to fixed assets management, including placement of

appropriate signage or stickers to disclose use of MDNR funding, and a copy of the District's most recent physical inventory and asset reconciliation.

9. Printed Materials Do Not Include MDNR as Funding Source (Recycled Paper Usage)

Auditor Recommendation:

We recommend that the District implement procedures to ensure that all printed materials distributed by the District or any subgrantee of the District have the chasing arrows symbol on at least one page of the document and that all reports consist of at least 30% recycled paper.

District Response:

The District stated, "District agrees and will comply."

SWMP Response:

The SWMP concurs with the auditor's recommendation. The District and the District's subgrantees, as a condition of the grants, are required to use recycled paper consisting of at least 30% post consumer fiber for all reports and materials produced by the District or the subgrantees. The recycling symbol must be displayed on at least one page of any materials provided to any parties.

SWMP Recommendation:

To resolve Finding #9, please provide to the SWMP a copy of the written policies and procedures adopted by the District to ensure that recycled paper is used for all reports and materials produced by the District or the District's subgrantees and to ensure that the recycled symbol is printed on at least one page of all such printed material and a copy of the signed meeting minutes documenting the Board's approval of the amendments.

10. Internal Control Weaknesses Related to Cash and Accounting Transactions

Auditor Recommendation:

We recommend that the District implement procedures so that all cash handling and payroll functions performed by the District Coordinator are reviewed by a Board member and that cash receipts be issued for all deposits. Finally, the Board should adopt the policy of voiding stale dated checks after they have been outstanding 90 days.

District Response:

The District stated, "The District has purchased a receipts book and will issue one when receiving a check in the future. In the future one board member will review the year end payroll information. The District will provide a written policy concerning state dated checks."

SWMP Response:

The SWMP concurs with the auditor's recommendation. The District is required to have in place a system of internal controls designed and maintained to safeguard assets and properly account for all fiscal transactions. Board review and oversight of cash handling and payroll 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. This will assist in ensuring safeguarding of assets from waste, loss and abuse and may assist in protecting District employees from potential allegations of misuse.

SWMP Recommendations:

The District indicated plans to correct weaknesses identified by the audit and to begin requiring board review of cash handling and payroll functions performed by the District Coordinator. The Board plans to use pre-numbered receipt slips for all moneys received and begin voiding all stale checks.

In order to fully resolve Finding #10, please provide copies of the written policies and procedures adopted by the District to strengthen internal controls related to cash handling and payroll functions. These processes 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. The District should also submit a copy of the signed meeting minutes documenting the Board's approval of amended internal control policies and procedures.

11. Financial Audit Not Submitted Timely

Auditor Recommendation:

We recommend that the District implement procedures to ensure financial audits are completed and submitted to MDNR timely.

District Response:

The District responded, "District will comply to the financial audit time line."

SWMP Response:

The SWMP concurs with the auditor's recommendation. The District must ensure the financial audit is completed and submitted prior to the deadline or request an extension in sufficient time to allow the SWMP to respond prior to the District being out of compliance.

SWMP Recommendations:

The District indicated plans to comply with the requirement to timely submit the financial audit report. The financial audit for the two years ended December 31, 2008 was completed and submitted to the SWMP within the required timeframe.

In order to allow for final resolution of Finding #11, please provide to the SWMP a copy of the written policies and procedure adopted by the District to ensure the required annual financial audit report is completed and submitted to the SWMP prior to the deadline or request an extension in sufficient time to allow the SWMP to respond prior to the District being out of compliance and a copy of the signed meeting minutes documenting the Board's approval of the amendments.

12. Bank Collateralization Inadequate

Auditor Recommendation:

We recommend the District takes steps to ensure bank balances in excess of FDIC are properly collateralized.

District Response:

The District stated "Since the District has been audited the amount of money has been changed to \$250,000 instead of \$100,000."

SWMP Response:

The SWMP concurs with the auditor's recommendation. The District must ensure its bank account is adequately covered with FDIC or with collateral securities.

SWMP Recommendations:

The SWMP is aware the FDIC limit per banking institution has increased to \$250,000 for a specific period of time. In order to fully resolve Finding #12, please provide to the SWMP a copy of the District's policy and procedures to ensure the District monitors their banking coverage and a copy of the signed meeting minutes documenting the Board's approval.

13. Grant Proposal Evaluation Criteria Incomplete

Auditor Recommendation:

We recommend that the District implement a plan to ensure that the required criteria are included in the District's project proposal review and evaluation procedures.

District Response:

The District stated "District will put the evaluation criteria into the next grant cycle."

SWMP Response:

The SWMP concurs with the auditor's recommendation. The District needs to include all required criteria to its review process and ensure that documentation of review is properly maintained.

SWMP Recommendations:

The District indicated plans to use all required criteria during their proposal evaluation. To fully resolve Finding #13, please provide to the SWMP a copy of the District's policies and procedures related to proposal evaluation and a copy of the District's latest evaluation form documenting the District's consideration of all required criteria and a copy of the signed meeting minutes documenting the Board's approval of the amended policies and procedures.

**14. Inaccurate Quarterly Financial Summary Reports
(Original Questioned Cost: \$14,634) – Final Disallowed Cost: To be determined**

Auditor Recommendation:

We recommend that the District implement procedures to ensure that quarterly reports are prepared accurately. We also recommend the District prepare a revised financial report as of December 31, 2007 that accurately reflects subgrant awards and disbursements and reconcile remaining cash balances to the total cash held by the District. Additionally, the District should resolve questioned costs of \$14,634 with the MDNR.

District Response:

The District stated "Concur and adopt. Grant accounting records are now being maintained to properly account for the quarterly financial summary reports.

SWMP Response:

The SWMP concurs with the auditor's recommendation. The District is required to maintain an accounting system in accordance with generally accepted accounting principles including grant project tracking records that permit accurate preparation of Quarterly Financial Summary Reports (QFSRs). The accounting system must ensure the District's records are reliable and reflect project awards received, disbursements made, ending balances, and are reconcilable.

SWMP Recommendations:

In order to resolve the questioned costs of \$14,634, the District will need to determine the source of the funds, which is likely unobligated district grant funding from previous grants. As a result of the District's Quarterly Financial Summaries being out of balance, the District will need to provide to the SWMP supporting documentation such as copies of cancelled checks, checkbook registers, copies of bank statements and/or reconciliations for the period December 1, 2005 through January 1, 2008 to assist in determining the source of the questioned costs totaling \$14,634. This information needs to be provided to the SWMP within 60 days from the date of the cover letter.

Once reconciled, the District will need to prepare and submit to the SWMP an amended QFSR for the period ended December 31, 2007, subsequent year ends, and a reconciled bank statement for these periods accurately reflecting subgrant awards, disbursements, ending cash balances and fully disclosing unobligated funds by source (i.e., district grant funds [current and carryover], interest income, program income, or other income) held by the District. The District

will also need to ensure for future periods that all moneys are identified and the source of funding is maintained in the District's accounting records.

The Executive Board must ensure QFSRs accurately reflect the actual status of each project, fully disclose unobligated funds held by the District at project end, and are reconciled to the original grant award. The Executive Board should review and provide oversight of the QFSRs preparation to ensure the reports accurately reflect the financial status of the District and that reconciliation to the District's bank statement(s) has occurred.

To fully resolve Finding #14, please provide a copy of the written policies and procedures adopted by the District to ensure QFSRs are accurately prepared, reconciled and reviewed by the Executive Board in the future. Additionally, the District should provide copies of monthly reconciled bank statements with submission of the QFSRs beginning with the report for the period ending March 31, 2011 to allow for verification that the District has begun reconciling QFSRs to bank statements on a quarterly basis.

15. Management Structure Not Compliant With State Statutes

Auditor Recommendation:

We recommend the District either adopt an alternative management structure or operate its management structure as prescribed in state statutes. The District should ensure its bylaws are in agreement with the state statutes and its management structure.

District Response:

The District stated "Concur and adopt."

SWMP Response:

The SWMP concurs with the auditor's recommendation. The District must take corrective action to ensure its management structure is in compliance with Section 260.305 RSMo. Compliance with state law is a condition of the grant award. Failure of the District to comply places the District at risk for loss of funding.

The audit found the District's management structure and bylaws are not in compliance with state statutes. The District's bylaws do not mention that an alternative management structure was adopted, but specify the Executive Board will consist of ten members. State statutes provide that, except for those Districts which formulate an alternative management structure, the Executive Board will consist of seven persons.

SWMP Recommendation:

The District must operate under a management structure as prescribed by state statutes or formally adopt an alternative management structure which must be formulated and agreed to by each county in the District. The District's adopted bylaws must then accurately reflect the management structure of the District. The District should begin to annually review and amend, as needed, its bylaws to reflect the District's actual practices, which must be in compliance with state law and regulations.

In order to provide for resolution of Finding #15, please provide to the SWMP copies of the resolution and approval letters documenting the District's formal adoption of an alternative management structure approved by the member counties or a list of board members limited to the seven provided for in state statute. Additionally, please provide a copy of the amended bylaws formally adopted by the District and a copy of the signed meeting minutes documenting the District's approval of the management structure.

