

Highway Department

Performance Audit



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- *** For a timeline of events, this office sent questions and requested items during the audit on 3/3/2020 with a deadline to cooperate by 3/20/2020. Management replied on 3/6/2020, well before the coronavirus disruptions, that there would be no cooperation whatsoever and for reasons entirely unrelated to the pandemic. The County closed to the public on 3/20/2020, but management continued working. This office waited until 3/27/2020 for clarity and then issued the below findings and recommendations with a reasonable deadline for responses by 4/10/2020. The Finance Department and not management replied on 3/31/2020 that there would be no responses.

I. Introduction and Scope

One of the major duties for County government is maintaining its roads and bridges system throughout unincorporated areas. Cities are responsible for managing their own roads within incorporated boundaries according to such territories. For the largely rural locations in between, however, the County has relevant oversight. Given such spread out distances, as opposed to typically condensed urban city locations, upkeep of County roads could conceivably prove rather difficult.

In fact, recent news stories highlight citizen complaints about the condition of these particular driving surfaces. Most of the disgruntlements appear to deal with chip seal roads or even gravel rather than obviously quite more expensive asphalt ones. Per the Highway Department website (www.claycountymo.gov/departments/public-services/highway/), asphalt paved roads do make up about half of all County controlled surfaces. Chip seal comprises another third.

Beyond that ongoing issue, although in a similar vein, another topic affecting the Highway Department since at least 2012 is road district payments. In a nutshell, the County Commission lowered its Road & Bridge property tax levy from \$0.24 to \$0.08 per \$100 of assessed value during 2008. The rate set in 2019 is \$0.0766, a rollback as required by Missouri's Hancock Amendment to prevent windfalls from increasing property values. City road districts, which are separate political jurisdictions under Revised Missouri Statute (RSMo) Chapter 233, therefore sued the County for the decrease in revenues collected from their demarcations. Courts cited RSMo 137.555 and 137.556, which involve property tax collection, as well as 67.548, which covers political subdivisions with respect to sales taxes, in agreeance with the road districts.

The 2012 settlements with each voter-approved city road district called for truing up the levy to \$0.14 in perpetuity. There also have to be County sales tax supplements of fifty percent between \$7 million and \$9 million until 2026, increasing to between \$7 million and \$10 million in 2027. The pertinence to today is how Smithville is now considering putting a road district question on its ballot for voters. Smithville currently does not have a special road district, but RSMo 67.548 already affords it the \$0.14. By RSMo 233.015, however, the County Commission must approve a city posing such an initiative to its citizens. The latest action on that matter was hesitation from a majority of the Commission, owing principally to concerns over any effects for those settlements and sales tax distributions. Legal opinions have thus been sought in the interim.

In light of these present and continual challenges facing the Highway Department, a performance audit seems reasonable. Guided by the Generally Accepted Government Auditing Standards (GAGAS), a performance audit assesses not only financial statistics, but furthermore internal controls on monetary transactions and operating efficiencies—as some examples. This type of audit does require management's responses to any findings with adequate criteria, conditions, causes, and effects or potential effects. Only appropriate and sufficient evidence substantiates findings and, thereby, their consequential recommendations.

As always, the underlying context surrounding Clay County government deserves brief mention. A citizen-petitioned audit of Clay County by the State Auditor continues after significant legal delays since its inception in late 2018. The County Commission sued the State Auditor, essentially contesting the office's authority to conduct performance audits rather than just financial audits. Courts ruled in favor of the State Auditor on that specific count, pending County appeal. This audit will therefore avoid duplicating the State Auditor's work the best it can.

II. Background and Audit Plan

The Highway Department accounts for a large portion of Clay County government. Indeed, of the overall \$100,685,948 County expenditure budget for 2020, combined Highway monies take up \$12,788,708—or we could say roughly 13% rounded up for understanding purposes. Its aggregated budgeted revenues come fairly close to that figure at an estimated \$11,109,200. Besides the aforementioned property tax, other sources of revenue include sales as well as use tax allocations from the General Fund (100) and State or Federal grants. Fees from planning and zoning activity, driveway permits, and road inspections supplement the total revenues. State motor vehicle fuel taxes and fees provide more funding.

Returning to the expenditure side of the ledger, there is the obvious expense of personnel. Two sub-departments exist in the Road & Bridge Fund (220) for personnel, namely Administration (700) along with Road Maintenance and Construction (701). Administration has four budgeted positions, with one supervising Highway Administrator. Road Construction & Management contains thirty one budgeted spots. Together, personnel budget adds up to \$1,455,745.47 of salaries, but \$1,794,598 with retirement and employer taxes added. Insurance and other benefits for personal services sum to \$498,803, meaning \$2,293,401 for personnel entirely.

Much of Highway's non-personnel demands naturally deal with tending to its descriptive purpose—roads and bridges. After all, the department's website describes them as “more than 380 miles of roadway, 1,900 under-road culverts, and 68 bridges” plus “5,800 traffic control, regulatory, and street signs throughout the County.” The previously discussed road district obligations consume some \$4 million of Fund 220's budget. A major portion of that fund's capital costs for roads and bridges are being paid with debt instruments, such as the 2018 certificates of participation (COPs). The Use Tax-Highway & Bridges Fund (301) further pays an assortment of capital and commodity needs. Various contractual and extra commodity uses take the remaining Highway complete budget.

Missouri statutes governing the Highway Department come mainly from Chapter 61. That is where the term “Highway Administrator” comes, after having succeeded the formerly called “Highway Engineer.” As far as County ordinances, those most applicable are within Title VII—Traffic Code and Title XIII—Public Works. The Traffic Code addresses Chapter 70-Traffic Regulations, Chapter 71-Parking Regulations, and Chapter 72-Traffic Schedules. Meanwhile, Public Works iterates Chapter 131-Underground Utilities and Chapter 132-Streets and Sidewalks.

Turning to the Audit Plan, there will be a focus on five main subjects. First is statutory and ordinance compliance. Second is evaluating the fuel reimbursement process where other departments fill up at Highway's headquarters. We will analyze the controls in place for when that occurs. Third, we will test road district payments requisitioned by the Highway Department for accurate calculations from the 2012 settlements. Fourth, this audit will be exploring cash handling with the Department's accounts receivable functions. We will at minimum trace back receipts to the fee schedule to verify proper billing of customers. Fifth and finally, we will review road inspection policies and how citizen complaints are handled.

III. Audit

- **Statutory and Ordinance Compliance**

Beginning with State statutes for the Highway Department, our focus is on RSMo Chapter 61. In that Chapter, the only real glaring exception to an otherwise perfect record is with RSMo 61.091—entitled “Reports to county commission, when made, contents of (certain first class counties)”. The statute basically mandates that:

“The highway administrator shall make a yearly report to the county commission during the month of January, for the preceding year, in which he shall include a detailed statement of the conditions of established public highways, roads, bridges and culverts...and shall submit for approval by the commission a plan for construction, reconstruction, maintenance and repair of existing established public highways, roads, bridges and culverts proposed to be undertaken and completed during the current year...”

The Commission meeting agendas for January of 2020 did not contain any such report. Older agendas also do not reveal any summarizations of prior years.

Recommendation: Starting with 2021, the Highway Administrator should present this report to the Commission for one of its January meetings.

Management’s Response: None.

- **Fuel Reimbursement**

Before we start on this part, it is important to revisit this office’s audit specifically on fuel reimbursements done in 2012. Instead of rehashing the entire report, a few key findings and recommendations dealt with:

- Segregation of duties, as the reconciler who develops invoices billing other departments can also fuel up with that system—then called Phoenix.
- Installation of video cameras in case there are any oddities found in the fuel system software reports for usage.
- Implementing badge readers for greater security at the fuel terminals.

Unfortunately management did not answer the questions we had regarding segregation of duties. We will not offer an opinion on that matter. They also didn’t offer a list of active employees with fuel codes needed to pump, so we can’t determine if that list is up to date and accurate. Moreover, management failed to provide the proof behind monthly fuel reimbursement forms. There is therefore ultimately no way to determine if what the Highway Department claims it is due is accurate at all.

Regarding the video cameras and badge readers, we went on site in the field and examined the pumping station. There are indeed still no badge readers. As for cameras, we

observed perhaps one on the main building, but it cannot be determined if it is viewing the pumps or just the building perimeter. With no cooperation nor responses from management, we have no certainty for that camera's function.

Recommendation: Provide the Auditor with proof behind the fuel reimbursement spreadsheets and a listing of all County employees with fuel codes. Consider installing video cameras at the fuel pump station. Also consider installing county badge readers as an extra layer of security.

Management's Response: None.

- **Road District Payments**

In this focal point, the road district payments have their own account line within Fund 220 (220-641000-228-000). As such, we gathered purchase orders from 2019 to check the calculations for accuracy against the \$0.14 levy true up obligated by RSMo 67.548. This dataset was considerably large, thus we set some parameters to get a random yet fair pool. We ultimately chose one purchase order from each month and aimed for different cities or special road districts each time, as follows:

Month	City/Road District	\$0.08 Levy	Assessed Valuation	Payment at \$0.14	PO #
January	Lawson	\$ 406.90	\$ 5,086.25	\$ 712.08	19-00215
February	Liberty	\$ 9,029.13	\$ 112,864.13	\$ 15,800.98	19-00900
March	Excelsior Springs	\$ 849.48	\$ 10,618.50	\$ 1,486.59	19-01504
April	Gladstone	\$ 2,854.99	\$ 35,687.38	\$ 4,996.23	19-02124
May	Claycomo	\$ 51.23	\$ 640.38	\$ 89.65	19-02838
June	North Kansas City	\$ 88.18	\$ 1,102.25	\$ 154.32	19-03562
July	Kansas City	\$ 1,149.46	\$ 14,368.25	\$ 2,011.56	19-04205
August	Kearney	\$ 116.32	\$ 1,454.00	\$ 203.56	19-04841
September	Pleasant Valley	\$ 50.84	\$ 635.50	\$ 88.97	19-06153
October	Smithville	\$ 106.58	\$ 1,332.25	\$ 186.52	19-06786
November	Avondale	\$ 22.56	\$ 282.00	\$ 39.48	19-07550
December	Excelsior Estates	\$ 3.03	\$ 37.88	\$ 5.30	19-07573

As can be seen, the algebra worked out correctly every time with no issues. Regarding the annual sales tax supplements required by legal settlements, however, management failed to provide backup documentation proving their calculations. There is therefore no way to validate the methodology of determining those payments and if we are in fact in compliance as a County.

Recommendation: Provide the Auditor with backup documentation behind the annual sales tax supplemental payments required by the legal settlements.

Management's Response: None.

- **Cash Handling and Accounts Receivable**

For this section, we first sampled three monthly Treasurer receipts from 2019 indicating Highway Department accounts receivable revenue. We then matched these up with the fee schedule for validation. This method therefore equates to a 25% testing size. The months pulled were February, June, and October. Note that the reports reflect the prior month's collections. So one could then interpret the selections as for January, May, and September, respectively.

With February, there were no exceptions. All shown is three driveway permits at \$155 each. Moving on to June, we likewise uncovered nothing out of the ordinary. There were seven driveway permits all correctly charged at \$155. An inspection fee of \$1,250 for two new roads, so \$2,500 total, was also received. For October, there was some more complexity. Two driveway permits came in, both at \$155, and a subdivision interior road entrance inspection for \$260—which is right. Not listed on the fee schedule, but on this month's report, was a grader sale for \$140,000. Some variable scrap metal recycling proceeds also happened.

Yet our questions in this focus area of the audit went unanswered. No answer was given of if petty cash or a change drawer is used. Said funds are not in the general ledger at present, so we need to verify their existence or inexistence. We queried about the use of a procedure manual for accounts receivable, which aids in consistent business practices with customers. Thus, to our knowledge and without being provided one, a standard guide may not be being utilized.

Recommendation: Provide the Auditor with clarification about any petty cash or change drawer usage. Also confirm the question of if a procedure manual is used for all accounts receivable. In addition, it may make sense to submit revenues collected to the Treasurer's office more frequently than monthly if practically feasible. Holding onto money that long could present issues.

Management's Response: None.

- **Road Inspections and Citizen Complaints**

We asked Highway if a list is kept for complaints received from citizens concerning any roads, bridges, or culverts. The reason we inquired ties back to statutory and ordinance compliance, but deserves separate attention. After all, citizens are highly concerned about this matter. RSMo 61.071 indicates that:

“The highway administrator shall personally, or by deputy, regularly inspect the condition of all public highways, roads, bridges and culverts in the county, and in pursuance of orders of the county commission or upon the written complaint of three or more registered voters in the county directed to the highway administrator of a condition of disrepair of any road or highway or of a dangerous or unsafe condition of any highway, road, bridge or culvert in the county, or of the neglect of a contractor performing work of any character on any public highways, roads, bridges and culverts, the highway administrator shall investigate the complaint at once and report to the county commission and shall make such adjustment, repair or corrections as are necessary;

and he shall make a written record or report of the final disposition of such complaint to the county commission.”

No list has been provided. This throws adherence to the statute in question. Citizens deserve to know what processes are in place to address their complaints. To be fair, there is a “Report Road Maintenance” electronic form that can be filled out on the website. There is no way to audit the progress of addressing those complaints without seeing any tracking, however. Furthermore, we know of no reports to the Commission regarding such complaints.

Recommendation: Inform the Auditor how citizen complaints are tracked and addressed. If no procedure is in place, then developing a process to handle them would be prudent.

Management’s Response: None.

Overall Rating for this Audit



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