



CITY OF LAKE LAFAYETTE, MISSOURI

YEAR ENDED SEPTEMBER 30, 1998

**From The Office Of State Auditor  
Claire McCaskill**

Report No. 99-42  
June 28, 1999

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the City of Lake Lafayette, Missouri.

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**NOTE: Recommendations, as well as responses from the city, which correspond with the findings below are included in the audit.**

The city has not adequately pursued the collection of delinquent property taxes. The city had delinquent tax bills totaling approximately \$11,000 as of April 1999. It appears this amount represents the total amount of property taxes which have not been paid since the establishment of the city in 1994.

*Formal collection procedures should be established related to delinquent property taxes and delinquent accounts should be pursued on a timely basis.*

Annual reports are not prepared summarizing the amount of property taxes collected as well as those that remain delinquent, and the city has not established the annual property tax rates by ordinance as required by state law.

An annual maintenance plan for city streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the roads to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

*A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.*

Bids were either not solicited or bid documentation was not retained for some expenditures. The city approved expenditures in excess of the approved budget for the General Fund. The city did not have formal written agreements for various contracted services.

The city purchased several items for the Lake Lafayette Landowners Association which resulted in sales tax not being properly paid. The association traded two tractors, which had previously been given to the city, without the city's approval. The city's written agreement with the association does not include provisions regarding the rental of the city hall building.

Accounting duties are not adequately segregated. Deposits are not made on a timely basis. Checks and money orders are not restrictively endorsed immediately upon receipt. The Mayor and Aldermen can sign checks, but are not bonded.

Semi-annual financial statements have not been published as required by state law. The board minutes are not signed by either the City Clerk or the Mayor.

CITY OF LAKE LAFAYETTE, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT .....	1-2
HISTORY AND ORGANIZATION .....	3-6
MANAGEMENT ADVISORY REPORT .....	7-15
SUMMARY OF FINDINGS .....	8

Number

Description

1.	Expenditures .....	9
2.	Transactions With Landowners Association.....	10
3.	Accounting Controls and Procedures.....	12
4.	Property Tax Procedures.....	13
5.	Financial Reporting and Minutes.....	14
6.	Street Maintenance Plan .....	15



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Board of Aldermen  
City of Lake Lafayette  
Lake Lafayette, Missouri 64076

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Lake Lafayette, Missouri. Our audit of the city included, but was not limited to, the year ended September 30, 1998. The objectives of this audit were to:

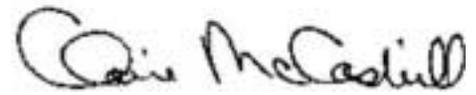
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Lake Lafayette, Missouri.

A handwritten signature in black ink, appearing to read "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill  
State Auditor

March 12, 1999 (fieldwork completion date)

## HISTORY AND ORGANIZATION

CITY OF LAKE LAFAYETTE, MISSOURI  
HISTORY AND ORGANIZATION

The city was incorporated in 1994 as a fourth-class city and is located in Lafayette County. The population of the city is approximately 270.

The city government consists of a mayor and four-member board of aldermen. The four board members are elected in staggered elections for two-year terms. The mayor is elected for a two year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officials at September 30, 1998, were:

<u>Elected Officials</u>	<u>Term Expires</u>	Actual Compensation for the Year Ended <u>September 30, 1998</u>	<u>Amount of Bond</u>
Darrell Sunderland, Mayor (1)	April 1999	\$ 0	
Mike Betts, Alderman (2)	April 1999	0	
Harold Evatt, Alderman	April 2000	0	
Laura Mullins, Alderwoman	April 2000	0	
John Silvers, Alderman (3)	April 1999	0	

- (1) Reelected in April 1999.
- (2) Replaced Mike Loeffler who resigned in May 1998. Reelected in April 1999.
- (3) Replaced Kirk Knabe who resigned in January 1998. Reelected in April 1999.

Other Principal Officials

Shirley Coon, City Clerk	0	\$10,000
Bill Riley, Chief of Police/City Collector (4)	822	
Chris Dorrance, City Attorney	1,965	

- (4) Burnice Johnston was hired to replace Bill Riley in December 1998.

In addition to the officials listed above, the city has six part-time employees.

Assessed valuation and tax rate information for tax years 1998 and 1997 are as follows:

ASSESSED VALUATION

	<u>1998</u>	<u>1997</u>
Real estate	\$ 1,321,014	1,270,512
Personal property	<u>274,119</u>	<u>246,384</u>
Total	\$ <u>1,595,133</u>	<u>1,516,898</u>

TAX RATES PER \$100 ASSESSED VALUATION

General	\$ 1.00	1.00
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A summary of the financial activity of the city of Lake Lafayette for the year ended September 30, 1998, is below:

	<u>General Fund</u>
<b>RECEIPTS:</b>	
Property taxes	\$ 13,745
Sales taxes from county	1,550
Motor fuel taxes	10,569
Traffic fines	1,092
Permits and city stickers	1,195
Payments from Landowners Association	23,032
Police radio grant	2,973
Interest	783
Other	688
Total Receipts	<u>55,627</u>
<b>DISBURSEMENTS:</b>	
Salaries and fringe benefits	7,977
Law enforcement contract	8,500
Utilities	5,290
Grader rental	1,750
Legal services	2,015
City hall rental	3,600
Equipment purchases and maintenance	8,324
Fuel	1,373
Street materials and labor	13,485
Office supplies and postage	1,290
Animal control	889
Insurance	2,052
Snow removal	700
Other	921
Total Disbursements	<u>58,166</u>
Receipts Over (Under) Disbursements	<u>-2,539</u>
Cash Balance, October 1, 1997	<u>16,133</u> *
Cash Balance, September 30, 1998	\$ <u><u>13,594</u></u> *

\* Included in the October 1, 1997 and September 30, 1998 balances is \$321, representing the balance of the Building Fund at those dates. There was no activity in that fund during fiscal year 1998.

MANAGEMENT ADVISORY REPORT

CITY OF LAKE LAFAYETTE, MISSOURI  
SUMMARY OF FINDINGS

1. Expenditures (pages 9-10)

Bids were either not solicited or bid documentation was not retained for some expenditures. The city approved expenditures in excess of the approved budget for the General Fund. The city did not have formal written agreements for various contracted services.

2. Transactions With Landowners Association (pages 10-11)

The city purchased several items for the Lake Lafayette Landowners Association which resulted in sales tax not being properly paid. The association traded two tractors, which had previously been given to the city, without the city's approval. The city's written agreement with the association does not include provisions regarding the rental of the city hall building.

3. Accounting Controls and Procedures (pages 12-13)

Accounting duties are not adequately segregated. Deposits are not made on a timely basis. Checks and money orders are not restrictively endorsed immediately upon receipt. The Mayor and Aldermen can sign checks, but are not bonded.

4. Property Tax Procedures (pages 13-14)

Annual reports are not prepared summarizing the amount of property taxes collected as well as those that remain delinquent. The city has not adequately pursued the collection of delinquent property taxes. The city has not established the annual property tax rates by ordinance.

5. Financial Reporting and Minutes (pages 14-15)

Semi-annual financial statements have not been published as required by state law. The board minutes are not signed by either the City Clerk or the Mayor.

6. Street Maintenance Plan (page 15)

An annual maintenance plan for city streets has not been prepared.

CITY OF LAKE LAFAYETTE, MISSOURI  
MANAGEMENT ADVISORY REPORT

<b>1.</b>	<b>Expenditures</b>
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- A. The city has established a purchasing policy by ordinance which requires all purchases of supplies and contractual services to be competitively bid whenever possible. This policy requires the city to advertise for sealed competitive bids for any purchases of goods and services in an amount of \$3,000 or more. According to city officials, bids are generally solicited by telephone; however, it appears documentation of bids received is not always retained. Bids were either not solicited or bid documentation was not retained for the following expenditures during the year ended September 30, 1998:

Gravel		\$7,532
Gravel hauling	2,886	
Mowing		720

Bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an opportunity to participate in the city's business. Complete documentation should be maintained of all bids received and the reason noted why the applicable bid was selected.

- B. During the year ended September 30, 1998, the city approved expenditures in excess of the approved budget for the General Fund by approximately \$500. The city did not prepare an amended budget nor did the city set forth any reason(s) for exceeding the budgeted amount in the board minutes or adopt a resolution authorizing the additional expenditures.

Section 67.040, RSMo 1994, requires political subdivisions to keep expenditures within amounts budgeted. If there are valid reasons which necessitate excess expenditures, a resolution should be adopted by the governing body setting forth the amount of the budget increase and the facts and reasons for such.

- C. The city has not entered into written contracts for various contracted services received. For example, the city has not entered into formal written contracts for legal services or animal control.

Section 432.070, RSMo 1994, requires contracts of political subdivisions be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid.

Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure bids are solicited for all applicable purchases in accordance with the city's purchasing policy. Documentation of the bidding process should be maintained in all cases. If the city believes it is not practical to obtain bids on certain purchases, documentation explaining the circumstances should be maintained.
- B. Ensure expenditures are kept within budgeted amounts. If it is necessary to incur additional expenditures, a resolution setting forth the increase and reasons for such should be adopted.
- C. Ensure formal written contracts are entered into for services obtained by the city.

**AUDITEE'S RESPONSE**

A-C. *The Board of Aldermen concurs.*

<b>2. Transactions With Landowners Association</b>
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The property owners of the city pay annual dues to the Lake Lafayette Landowners Association (the association), a private not-for profit corporation. The association existed for a number of years prior to the city's incorporation and it appears the city has worked closely with this entity since the incorporation of the city in 1994. The association has responsibility for maintaining the parks and lakes within the city, while the city maintains the streets and provides law enforcement services. The association has helped support city operations by providing funding to the city. The city in turn, has paid the association for the use of certain association owned property. A review of the financial activity between the city and the association disclosed the following concerns:

- A. During the year ended September 30, 1998, the city purchased several items for the association at a total cost of approximately \$3,280. Most of this amount related to a piece of equipment for the association's road grader. The association reimbursed the city for the amount of these purchases. Because of the city's tax exempt status, the association effectively avoided paying sales tax on these purchases.

Although the Mayor indicated these purchases were not made in order that the association avoid paying sales taxes, the city should not allow such expenditures to be incurred using its sales tax-exempt status. Doing so violates the terms of the city's sales tax exemption letter.

- B. In August 1995, the association and the city signed an agreement granting the city full title and ownership rights to two tractors owned by the association. The city has used the tractors to maintain the streets, and expended over \$300 in repairs to the tractors during fiscal year 1998. However, in August 1998, the association traded these two tractors for another tractor without approval of the city. According to the Mayor, at the time of the trade the current city officials were unaware of this agreement, and did not know the city owned the tractors.

The city should ensure that equipment used by both the city and the association is clearly identified as to proper ownership and that those ownership rights are considered prior to the equipment being disposed of or traded.

- C. The association owns the building which the city uses for its city hall and the city pays rent of \$300 per month for the use of this building. Although the city and the association have entered into a written agreement documenting the services provided by the city, the amount of funding provided by the association, and the charges to be paid by the city to use the association's road grader, the city's rental of the city hall building is not included in the provisions of the agreement.

Section 432.070, RSMo 1994, requires all contracts of the city to be in writing. The city should review the current agreement with the association and revise it to include provisions regarding the rental of the city hall building and any other financial activity not addressed by the agreement.

**WE RECOMMEND** the Board of Aldermen:

- A. Refrain from purchasing items for the association (or any other private entity or individual) which results in the payment of sales tax being avoided.
- B. Ensure equipment used by both the city and the association is clearly identified as to proper ownership and that these ownership rights are considered prior to the equipment being disposed of or traded.
- C. Review the formal agreement with the association and revise it to include provisions regarding the rental of the city hall building and any other financial activity not addressed by the agreement.

**AUDITEE'S RESPONSE**

- A. *The Board of Aldermen concurs.*
- B. *The Board of Aldermen concurs. The board indicated it will establish and maintain an inventory of property owned by the city to help implement this recommendation.*

- C. *The Board of Aldermen concurs and indicated it is in the process of implementing this recommendation.*

<b>3. Accounting Controls and Procedures</b>
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- A. The City Clerk performs all accounting and record keeping duties of the city and essentially serves as City Treasurer and City Collector as well as City Clerk. While the Board of Aldermen has appointed the Chief of Police to serve as City Collector, it appears that individual is not involved in the accounting, collection, or record keeping of property taxes or any other revenues. The City Clerk collects all receipts, maintains receipt and disbursement records, makes bank deposits, co-signs checks, reconciles the bank accounts, and serves as secretary to the board.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible. Having one person responsible for the duties of all three of these offices does not allow the segregation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law.

If the duties cannot be adequately segregated, the board should ensure an independent review of the functions performed by the City Clerk is performed on a periodic basis.

This review should include, but not necessarily be limited to, someone other than the City Clerk reviewing the cancelled checks, bank statements, and bank reconciliations, and comparing recorded receipts to bank deposits.

- B. Deposits are not made on a timely basis. During the year ended September 30, 1998, deposits were generally made only three times a month, with deposits averaging over \$1,000.

To adequately safeguard cash receipts and reduce the risk of loss or misuse of funds, deposits should be made on a daily basis or when accumulated receipts exceed \$100.

- C. Checks and money orders received are not restrictively endorsed immediately upon receipt. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.

- D. The Mayor and Aldermen are all authorized to co-sign checks. None of these individuals are bonded.

The city should consider reducing the number of individuals authorized to sign checks. In addition, failure to adequately bond all persons with access to assets exposes the city to risk of loss.

**WE RECOMMEND** the Board of Aldermen:

- A. Consider appointing separate individuals to be responsible for the duties of the City Collector and City Treasurer. If this is not possible, at a minimum, procedures for an adequate independent review of the record keeping functions should be established.
- B. Ensure deposits are made on a daily basis or when accumulated receipts exceeds \$100.
- C. Ensure checks and money orders are restrictively endorsed immediately upon receipt.
- D. Consider reducing the number of individuals authorized to sign checks and obtain bond coverage for any city officials with check signing authority.

**AUDITEE'S RESPONSE**

- A. *The Board of Aldermen indicated it will establish an independent periodic review of the records.*
- B. *The Board of Aldermen indicated it will try to ensure monies are deposited on a timely basis.*
- C. *The Board of Aldermen indicated this recommendation has already been implemented.*
- D. *The Board of Aldermen indicated the number of authorized check signers has already been reduced and it will consider obtaining bond coverage for all those individuals.*

<b>4. Property Tax Procedures</b>
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- A. The City Clerk's duties include collecting and depositing property tax receipts. Annual reports are not prepared summarizing the amount of property taxes collected as well as those that remain delinquent.

Sections 79.310, 94.320, and 94.330, RSMo 1994, require reports to be submitted to the board of aldermen indicating the amount of taxes collected and taxes remaining delinquent. The board is to examine and approve the lists and charge the tax collector with the collection of the delinquent taxes. Section 94.330, RSMo 1994, also provides that the board may declare worthless any and all personal delinquent taxes which they may deem uncollectible.

Annual reports which comply with state law would help provide assurance taxes have been properly collected, written off, or determined to be delinquent.

- B. The city has not adequately pursued the collection of delinquent property taxes. The city had delinquent tax bills totaling approximately \$11,000 as of April 1999. It appears this amount represents the total amount of property taxes which have not been paid since the establishment of the city in 1994.

To help ensure prompt collection of property taxes, the city should establish formal procedures regarding the collection of delinquent property taxes. This might include the advertisement and sale of the applicable real estate as provided under Chapter 140, RSMo 1994.

- C. The city has not established the annual property tax rates by ordinance as required by Section 94.210, RSMo 1994.

**WE RECOMMEND** the Board of Aldermen:

- A. Require annual reports of property taxes collected and delinquent be prepared as required by state law.
- B. Ensure formal collection procedures related to delinquent property tax bills are established and that delinquent accounts are pursued on a timely basis.
- C. Establish the annual property tax levy by ordinance as required by state law.

**AUDITEE'S RESPONSE**

*A-B. The Board of Aldermen concurs.*

*C. The Board of Aldermen concurs and indicated this recommendation was implemented for 1999.*

<b>5. Financial Reporting and Minutes</b>
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- A. The city has not published semi-annual financial statements as required by state law. Section 79.160, RSMo 1994, requires the board of aldermen to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six month period. In addition, Section 79.165 RSMo 1994, states the city cannot legally disburse funds until the financial statement is published.
- B. Board minutes are prepared by the City Clerk; however, they are not signed by either the City Clerk or the Mayor. The board minutes should be signed by the City Clerk as preparer and by the Mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure semiannual financial statements are published in accordance with state law.
- B. Ensure board minutes are properly signed by the City Clerk and the Mayor to attest to their completeness and accuracy.

**AUDITEE'S RESPONSE**

*A-B. The Board of Aldermen concurs.*

<b>6. Street Maintenance Plan</b>
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An annual maintenance plan for city streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the roads to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

**WE RECOMMEND** the Board of Aldermen prepare a formal maintenance plan for city streets at the beginning of the fiscal year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

**AUDITEE'S RESPONSE**

*The Board of Aldermen concurs.*

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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