



CITY OF BELL CITY, MISSOURI

YEAR ENDED JUNE 30, 2000

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

Report No. 2000-113  
October 26, 2000  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

October 2000

[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

**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 Bell City, Missouri.**

Inadequate oversight and monitoring by the Board of Alderman and inadequate records and procedures have contributed to a serious financial situation for the city. The city operated with very low cash balances in many funds. Due to the inadequate cash balances in some funds, the city has at times paid bills from whichever funds had money available. Also, the low cash balances have necessitated the city purchasing used equipment which later required significant repairs.

Inadequate records and procedures have inhibited the board's ability to effectively monitor and manage the city and have resulted in or contributed to the city's problems. These weaknesses include inadequate detail in the budgets and other financial reports, lacking of bidding for various purchases, inadequate segregation of accounting duties or review of work performed, inadequate collection procedures on delinquent utility accounts and a lack of reconciliations over utility billings, payments, and accounts receivable.

In July 1998, the city purchased land and a new metal building to house city hall for \$26,500. The city spent approximately \$4,700 more to renovate the building for offices. The city did not maintain documentation of the estimates for the various options it had considered prior to the purchase of the building. In addition, the minutes of the board meetings contain no discussion of these various options or cost estimates. Also, the city did not obtain a professional appraisal to value the land and building to purchase. The bank, which wrote the loan, informally appraised the property and building at \$40,000 to \$45,000 whereas the Stoddard County Assessor, after the improvements were made by the city, appraised the land and building at \$27,300.

The city has not taken adequate steps to ensure the timely collection of delinquent accounts. According to the Mayor, the board was unaware the problem was significant until the new City Clerk prepared a delinquent list in April 2000, which showed the delinquent accounts for water, sewer, and trash services totaled approximately \$16,000. Several customers on the list had been delinquent for three to four years with some account balances over \$1,000. The city also has not adequately accounted for water meter deposits, has not created and funded reserve accounts required by its sewer bond, and has not obtained annual audits.

(over)

YELLOW SHEET

The city's purchasing ordinance requires advertising for sealed competitive bids for all purchases of goods or services exceeding \$100. However, we noted bids or proposals were not solicited, or bid documentation was not retained, for several purchases, such as asphaltting (\$9,654) and insurance (\$9,044).

The city entered into several installment loans with a local bank. A 10-year loan was obtained in July 1998, for the purchase of the city hall totaling \$30,371. Another loan was for 30 months obtained in March 1999, for the purchase of a 1987 pickup truck totaling \$3,863. The contracts obligate the city to payments up to 10 years without any option to renew the contracts on a yearly basis. Extending the contracts over multi-year periods without the right of withdrawal obligates the city for future periods which appears to violate the intent of the Missouri Constitution on legal indebtedness absent a vote of city taxpayers.

The city financed its premiums for various insurance policies with one company at a 16.25 percent and 17 percent interest rate through an insurance premium financing company. This method of paying insurance premiums is very costly.

The city maintains two non-interest bearing bank accounts. The average month-end bank balance in the general account for the year ended June 30, 2000, was \$25,068. To maximize revenues, city monies should be deposited into interest-bearing accounts.

The city paid the maintenance employee an additional \$200 on July 16, 1999. Also, while the former police resigned effective July 2, 1999, the city paid him \$200 on July 16, 1999 and on July 30, 1999. There is no documentation of additional hours worked by these employees to support the payments and they were apparently additional payments for services previously rendered. These payments appear to be bonuses. In addition, all city employees received a \$50 and \$25 Christmas bonus in December 1999 and 1998, respectively. These bonuses violate the Missouri Constitution.

Additionally, in December 1998, a city employee received his payroll check one week in advance of the date earned. In June 1998, the city loaned the former police officer \$500 to be repaid weekly in \$25 installment payments. Such payments violate the Missouri Constitution, which prohibits any political subdivision of the state from granting or lending money to an individual. In addition, it is not prudent for a city to compensate employees in advance.

The maintenance employee was the sole bidder for the city's 1975 pickup truck. The minutes documented the approval of the sale of the truck to the employee for \$500. While the title was transferred to the employee, the city was never paid for the truck. According to the Mayor, the truck was instead given to the employee in lieu of the rest of a retroactive raise. Such a gift or bonus is prohibited by the Missouri Constitution. Furthermore, in January 2000, the city sold its 1987 truck to the Mayor's father-in-law without publicizing or soliciting bids.

The city does not have a formal policy regarding public access to city records. A formal policy regarding access to and copies of city records would establish reasonable guidelines for the city to make the records available to the public. The board meeting minutes do not always include sufficient detail of matters discussed or action and votes taken. For example, the minutes did not document the various options discussed prior to the purchase of the new city hall land and building.

CITY OF BELL CITY, MISSOURI

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

To the Honorable Mayor  
And  
Members of the Board of Aldermen  
City of Bell City  
Bell City, Missouri 63735

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Bell City, Missouri. Our audit of the city included, but was not limited to, the year ended June 30, 2000. The objectives of this audit were to:

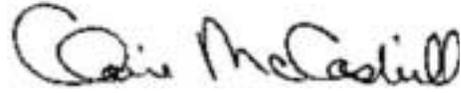
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which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

Our audit was made in accordance with applicable 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 the 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 during our audit of the city.

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



Claire McCaskill  
State Auditor

July 27, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	Douglas J. Porting, CPA
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## HISTORY AND ORGANIZATION

CITY OF BELL CITY, MISSOURI  
HISTORY AND ORGANIZATION

The city of Bell City is located in Stoddard County. The city was incorporated in 1955 as a fourth-class city. The population of the city in 1990 was 469.

The city government consists of a mayor and a four-member board of aldermen. The four board members are elected from two wards 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 June 30, 2000, were:

<u>Elected Officials</u>	<u>Term Expires</u>	Actual Compensation for the Year Ended June 30, 2000	Amount of Bond
David Scherer, Mayor	April, 2001	\$ 25	\$ 0
Howard Pikey, Alderman, Ward One	April, 2001	12	0
David Lewis, Alderman, Ward Two	April, 2001	12	0
Lula Maestas, Alderwoman, Ward One (1)	April, 2002	0	0
Kay Hughes, Alderwoman, Ward Two (2)	April, 2002	0	0
<u>Other Principal Officials</u>			
Billy Harrison, City Clerk/Court Clerk (3)		3,520	5,000
Robbie Hale, Police Officer (4)		6,600	0
Donald Rhodes, City Attorney		0	0

Other city employees include one full-time and three part-time employees.

- (1) Elected in April 2000 to replace Tim Hall.
- (2) Elected in April 2000 to replace Johnny Dover.
- (3) Appointed to replace Mildred Rivers who retired in March 2000.
- (4) Appointed to replace Joel Moyers who resigned in January 2000. Joel Moyers replaced Larry Gammons who resigned in July 1999.

Assessed valuation and tax rate information for tax year 1999 is as follows:

ASSESSSED VALUATION	
Real estate	\$ 1,079,187
Personal property	<u>624,037</u>
Total	<u>\$ 1,703,224</u>

TAX RATE PER \$100 ASSESSED VALUATION

General Fund	\$ . 69
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Summaries of the financial activity of the city of Bell City for the two years ended June 30, 2000 are presented on the following pages.

Year Ended June 30, 2000

	General Fund	Water Fund	Sewer Fund	Solid Waste Fund	Motor Fuel Fund	Meter Deposit Fund	Fire Departmen Fund	Total
<b>RECEIPTS</b>								
Sales taxes	\$ 13,020	0	0	0	0	0	0	13,020
Property taxes	11,797	0	0	0	0	0	0	11,797
Franchise taxes	13,491	0	0	0	0	0	0	13,491
Permits and city stickers	1,169	0	0	0	0	0	0	1,169
Other	6,606	0	0	0	0	0	1,555	8,161
Water fees	905	19,754	0	0	0	0	0	20,659
Sewer fees	0	0	32,017	0	0	0	0	32,017
Solid waste fees	0	0	0	28,515	0	0	0	28,515
Gas and motor vehicle taxes	0	0	0	0	19,274	0	0	19,274
Meter deposits	25	0	0	0	0	675	0	700
<b>Total Receipts</b>	<b>47,013</b>	<b>19,754</b>	<b>32,017</b>	<b>28,515</b>	<b>19,274</b>	<b>675</b>	<b>1,555</b>	<b>148,803</b>
<b>DISBURSEMENTS</b>								
Salaries and fringe benefits	18,191	9,544	11,284	6,522	10,579	0	0	56,120
Supplies	1,078	2,550	2,340	916	1,772	316	0	8,972
Insurance	6,243	476	1,567	276	1,502	0	0	10,064
Utilities	6,155	1,262	1,705	38	859	0	0	10,019
Equipment purchases and repairs	2,252	2,241	2,649	2,760	461	0	1,949	12,312
Loan/bond payments	9,645	0	6,306	0	0	0	0	15,951
Police department	2,005	0	0	0	1,594	0	0	3,599
Fire department	749	0	0	0	0	0	0	749
Other	1,412	1,231	1,442	58	736	86	0	4,965
Waste water analysis	0	0	442	0	0	0	0	442
Landfill fee	0	0	0	14,420	0	0	0	14,420
Street repair	0	0	0	0	7,143	0	0	7,143
<b>Total Disbursements</b>	<b>47,730</b>	<b>17,304</b>	<b>27,735</b>	<b>24,990</b>	<b>24,646</b>	<b>402</b>	<b>1,949</b>	<b>144,756</b>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<b>(717)</b>	<b>2,450</b>	<b>4,282</b>	<b>3,525</b>	<b>(5,372)</b>	<b>273</b>	<b>(394)</b>	<b>4,047</b>
<b>CASH, JULY 1</b>	<b>1,299</b>	<b>691</b>	<b>1,530</b>	<b>997</b>	<b>12,266</b>	<b>1,804</b>	<b>1,028</b>	<b>19,615</b>
<b>CASH, JUNE 30</b>	<b>\$ 582</b>	<b>3,141</b>	<b>5,812</b>	<b>4,522</b>	<b>6,894</b>	<b>2,077</b>	<b>634</b>	<b>23,662</b>

NOTE: As of June 30, 2000, the outstanding principle balances on the city's two bank loans were as follow

1. \$25,906 on a 10-year loan with principle and interest payments of \$4,325 per year for 8 more years.
2. \$2,027 on a 30-month loan with principle and interest payments of \$142 per month for 15 more months.

Year Ended June 30, 1999

	General	Water	Sewer	Solid	Motor	Meter	Fire	
	Fund	Fund	Fund	Waste	Fuel	Deposit	Department	Total
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	
<b>RECEIPTS</b>								
Sales taxes	\$ 11,701	0	0	0	0	0	0	11,701
Property taxes	9,916	0	0	0	0	0	0	9,916
Franchise taxes	14,053	0	0	0	0	0	0	14,053
Permits and city stickers	1,345	0	0	0	0	0	0	1,345
Loan proceeds	33,000	0	0	0	0	0	0	33,000
Other	3,436	610	146	100	0	0	511	4,803
Water fees	0	15,689	0	0	0	0	0	15,689
Sewer fees	0	0	27,294	0	0	0	0	27,294
Solid waste fees	0	0	0	20,700	0	0	0	20,700
Gas and motor vehicle taxes	0	0	0	0	18,812	0	0	18,812
Meter deposits	0	0	0	0	0	525	0	525
<b>Total Receipts</b>	<b>73,451</b>	<b>16,299</b>	<b>27,440</b>	<b>20,800</b>	<b>18,812</b>	<b>525</b>	<b>511</b>	<b>157,838</b>
<b>DISBURSEMENTS</b>								
Salaries and fringe benefits	18,949	7,508	16,147	4,799	7,412	0	0	54,815
Supplies	2,675	3,282	1,505	856	711	0	0	9,029
Insurance	6,115	315	592	0	1,507	0	0	8,529
Utilities	6,965	1,505	2,431	0	0	0	0	10,901
Equipment purchases and repairs	2,443	527	3,220	3,082	396	0	45	9,713
Police department	4,072	0	0	0	0	0	0	4,072
Fire department	1,102	0	0	0	0	0	0	1,102
City Hall building	31,162	0	0	0	0	0	0	31,162
Other	1,044	932	238	26	1,053	102	0	3,395
Waste water analysis	0	0	433	0	0	0	0	433
Loan/bond payments	0	3,042	5,880	0	0	0	0	8,922
Landfill fee	0	0	0	12,360	0	0	0	12,360
Street repair	0	0	0	0	6,433	0	0	6,433
<b>Total Disbursements</b>	<b>74,527</b>	<b>17,111</b>	<b>30,446</b>	<b>21,123</b>	<b>17,512</b>	<b>102</b>	<b>45</b>	<b>160,866</b>
<b>RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<b>(1,076)</b>	<b>(812)</b>	<b>(3,006)</b>	<b>(323)</b>	<b>1,300</b>	<b>423</b>	<b>466</b>	<b>(3,028)</b>
<b>CASH, JULY 1</b>	<b>2,375</b>	<b>1,503</b>	<b>4,536</b>	<b>1,320</b>	<b>10,966</b>	<b>1,381</b>	<b>562</b>	<b>22,643</b>
<b>CASH, JUNE 30</b>	<b>\$ 1,299</b>	<b>691</b>	<b>1,530</b>	<b>997</b>	<b>12,266</b>	<b>1,804</b>	<b>1,028</b>	<b>19,615</b>

MANAGEMENT ADVISORY REPORT

CITY OF BELL CITY, MISSOURI  
SUMMARY OF FINDINGS

1. Financial Oversight and Monitoring (page 11-12)

The Board of Aldermen has not provided adequate oversight and monitoring of city operations. Records and procedures are inadequate and the city is in a serious financial situation.

2. City Hall Purchase (pages 12-13)

The board did not maintain documentation of estimates obtained for various options it had considered prior to the purchase of a new building. The city did not obtain a professional appraisal valuing the land and building prior to the purchase. The city spent approximately \$4,700 for labor and materials to renovate the building without soliciting bids.

3. Water, Sewer, and Trash Systems (pages 13-17)

The city does not reconcile total billings to payments received and amounts remaining unpaid for utility services. The city has not taken steps to ensure the timely collection of delinquent accounts. The city has not established a system to account for each customer account. The city does not reconcile total gallons of water billed to customers to gallons of water pumped. Records of customers paying the meter deposit are not adequately maintained. The city has not established the two revenue bond reserve accounts as required by the bond covenant. The balance which should be in the Debt Service Reserve Account and the Depreciation and Replacement Accounts at June 30, 2000 is \$2,213 each. The city's water and sewer systems have not been audited as required by state law. In addition, the city has not established procedures to ensure all customers receiving trash services are billed.

4. Disbursements (pages 17-20)

Bids or proposals were not solicited or bid documentation was not retained for several purchases. The Board of Aldermen does not document the review of invoices prior to payment and supporting documentation was not adequate for some disbursements. The city entered into several bank loans which appear to violate the Missouri Constitution. The city is paying a high interest rate for its insurance premium and did not seek other alternatives for paying the insurance premiums.

5. Accounting Controls and Procedures (pages 20-22)

The board has not appointed separate individuals to serve as City Treasurer or City Collector. The Mayor and one of the Aldermen sign checks, but are not bonded. Receipts are not deposited intact and the City Clerk does not adequately perform

reconciliations of the various accounting records. The city deposits city funds in non-interest bearing accounts. The city has not prepared or maintained permanent, detailed property records of fixed assets.

6. Ordinances, Records, and Board Minutes (pages 22-24)

Many of the city's ordinances are old and outdated. In addition, the city does not maintain a listing of all ordinances passed and repealed. The city does not have a formal policy regarding public access to city records. Board meeting minutes are not adequately maintained and are not signed by the Mayor, the City Clerk, or any of the board members.

7. Budgets and Financial Reporting (pages 24-26)

Budgets are not prepared in accordance with statutory requirements and the city approved expenditures in excess of budgeted amounts. An annual maintenance plan for city streets has not been prepared and the city's published financial statements are not sufficiently detailed.

8. Personnel Policies and Procedures (pages 26-28)

Bonuses were paid to city employees, a city employee was paid his payroll check one week in advance of the date earned and the city loaned the former police chief \$500. The city does not have an annual ordinance to establish the compensation of the City Clerk and other employees, time sheets are not prepared, and records of vacation and sick leave are not maintained.

9. Restricted Revenues (page 28-29)

The city has not established procedures to ensure expenditures are properly allocated among the various funds. Some expenses charged to the Motor Fuel Fund appear inappropriate while other expenses allowed by state law are not charged to the fund (i.e., police officer's salary).

10. City-Owned Vehicles (pages 29-31)

Vehicle logs are not adequately maintained. Several problems were noted with the purchase and sale of city vehicles, including not soliciting bids and giving a truck to an employee. The city has not adequately planned for replacing its vehicles and equipment resulting in purchasing poor quality equipment.

CITY OF BELL CITY, MISSOURI  
MANAGEMENT ADVISORY REPORT

**1. Financial Oversight and Monitoring**

Inadequate oversight and monitoring by the Board of Aldermen and inadequate records and procedures have contributed to a serious financial situation for the city.

The city has operated with very low cash balances in many funds. Due to the inadequate cash balances in some funds, the city has at times paid bills from whichever funds had money available. As noted elsewhere in this report, the city has also not consistently allocated costs to the various funds benefiting from the expenditures and as a result, restricted receipts may have been used improperly. Also, the low cash balances have necessitated the city purchasing used equipment which later required significant repairs and financing its insurance premiums at a high rate of interest. The city also has not established the reserve bond accounts required by its revenue bond covenant.

Inadequate records and procedures have inhibited the board's ability to effectively monitor and manage the city and have resulted in or contributed to the problems noted above. These weaknesses include inadequate detail in the budgets and other financial reports, lack of bidding for various purchases, inadequate segregation of accounting duties or review of work performed, inadequate collection procedures on delinquent utility accounts and a lack of reconciliations over utility billings, payments, and accounts receivable.

The Board of Aldermen should review disbursements, reducing discretionary spending as much as possible, and ensure adequate revenues exist to fund the necessary core city services as well as to properly fund revenue bond reserve accounts. These plans should be formalized in a detailed annual budget. In addition, the board should ensure adequate accounting records and an effective system of accounting and administrative controls are in place, including procedures to frequently monitor budgeted and actual activity. The specific recommendations contained in the following MARs, if implemented, will help establish these records, controls, and procedures.

**WE RECOMMEND** the Board of Aldermen review the current financial condition of the city's funds, and consider the various alternatives of reducing disbursements and/or increasing receipts. In addition, the board should ensure adequate budgets and financial records are prepared and maintained in the future, and adequate controls and procedures are in place to properly oversee city operations.

**AUDITEE'S RESPONSE**

*The board agrees with the recommendation and is aware of the city's poor financial condition. It indicated it will continue to consider ways to improve the financial condition and noted the city has already begun implementing several procedures to increase collections of delinquent*

*utility accounts. It also indicated it will develop and maintain adequate records and controls, as addressed in detail later in the audit report.*

<b>2. City Hall Purchase</b>
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In July 1998, the city purchased land and a new metal building to house city hall for \$26,500. The city spent approximately \$4,700 more to renovate the building for offices. The city obtained a \$30,000 loan from a local bank for the purchase of the land and building. During our review of the purchase, we noted the following concerns:

- A. The Mayor and board members indicated that prior to purchasing the new building, they had reviewed other options. They indicated they obtained estimates for purchasing two separate existing buildings within the city, repairing the erosion and deterioration problem with the old city hall, and contracting for a building to be built (similar to the one purchased). The Mayor indicated the estimates for the various options ranged from approximately \$28,900 to \$30,000. However, the city did not maintain documentation of such estimates for the various options it had considered prior to the purchase of the building. In addition, the minutes of board meetings contain no discussion of these various options or cost estimates.

Without supporting documentation, there is little assurance the board took appropriate steps to ensure the decision to purchase the building was the most beneficial to the city. In addition, discussions of such major transactions should be fully documented in the board meeting minutes.

- B. The city did not obtain a professional appraisal to value the land and building prior to purchase. The bank which wrote the loan indicated an informal, in-house appraisal valued the property and building at \$40,000 to \$45,000. According to the Stoddard County Assessor, the appraised value of the land and building at January 1, 2000, (after the additional improvements were made by the city) was \$27,300.

The disparity between the county assessor's appraisal and the bank's in-house appraisal supports the importance or significance of an independent appraisal in establishing the market value of the land and building as a basis for determining the reasonableness of the asking price.

- C. The city spent approximately \$4,700 for labor and materials to renovate the building for two offices and a restroom. Except for a wall dividing the garage and the office area, the building was basically a shell when it was purchased.
- 1) Beginning in November 1998, the board hired and paid \$1,752 to an individual to build the offices and restroom facility without soliciting bids and without a written contract. The project was completed in April 1999,

or nine months after the building was purchased. According to the Mayor, the project took longer and the cost of labor was significantly more than the board had anticipated. However, there is no documentation to support the agreement with the contractor, or the cost the board anticipated.

Written contracts establish payment terms, clarify responsibilities and expectations of both parties, and help ensure the city receives the services it desires. Section 432.070, RSMo 1994, requires all contracts to be in writing. In addition, the city should compare invoices to contract terms to provide assurance the city is paying the appropriate amounts for services.

- 2) Of the \$4,700 spent to renovate the building, approximately \$2,840 was used to purchase materials. The materials were purchased from seven different vendors without soliciting bids. As noted in MAR No.4, competitive bids help ensure the city receives fair value by contracting with the lowest and best bidders.

Had competitive bids been solicited, the board could have better ensured the reasonableness of the labor cost, the quantity and type of materials needed, and the length of time to complete the project.

**WE RECOMMEND** the Board of Aldermen solicit bids, estimates, and/or appraisals for all major purchases. In addition, ensure documentation of estimates or bids taken and discussion of major transactions is adequate and all agreements are in writing.

### **AUDITEE'S RESPONSE**

*The board agrees and indicated it will ensure in the future that bids, estimates, and appraisals are obtained when applicable and that all applicable information is adequately documented.*

<b>3. Water, Sewer, and Trash Systems</b>
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The city provides water, sewer, and trash services to its residents. Water meters are read on approximately the twentieth of each month and a combined water, sewer, and trash utility bill is mailed on the last day of the month. Payments are due by the tenth of the following month. Our review of the utility systems and related procedures identified the following concerns:

- A. While the city maintains individual customer account sheets, the city does not maintain a control ledger to account for total billings and payments received each month. As a result, monthly reconciliations of total billings, payments received, and amounts remaining unpaid are not performed.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies

are detected on a timely basis. Complete documentation of the reconciliations should be retained to support conclusions and any corrections made, and to facilitate independent reviews.

- B. The city has not taken adequate steps to ensure the timely collection of delinquent accounts. Periodic listings of delinquent utility account balances were not prepared and reviewed by the board. According to the Mayor, the board was unaware the problem was significant until the new City Clerk prepared a delinquent list in April 2000 which showed the delinquent accounts for water, sewer and trash services totaled approximately \$16,000. Several customers on the list had been delinquent for three to four years with some account balances over \$1,000.

City ordinance No. 28.910 requires a \$5 penalty for any water or sewer bill not paid by the tenth of the month be added to the bill. In addition, if the bill is not paid for 30 days, water service is to be discontinued and not reconnected until all past due bills are paid in full along with a reconnect fee. The city has not enforced the penalty on delinquent water bills or disconnected delinquent accounts.

To maximize receipts and ensure equitable treatment to customers who pay timely, the city should prepare periodic listings of delinquent accounts and take steps necessary to ensure timely collection of the delinquencies.

- C. The city has not established a system to ensure it accounts for all customer accounts. The city maintains a separate utility ledger sheet for each customer and a meter reading sheet for customers receiving water services. However, account numbers are not assigned, nor are the utility billing statements prenumbered. As a result, there is not adequate assurance all meters are read and that all customers are properly billed for services.

The city does not account for all utility ledger sheets. The former City Clerk removed customer ledger sheets for closed accounts or customers who had moved and filed them in various other locations. Account numbers would help ensure all customers are accounted for, properly billed, and collections properly recorded. In addition, a log of all assigned account numbers would provide a summary control record of all customer accounts in use and/or closed.

- D. The city has not obtained annual audits of its combined water works and sewage system. Section 250.150, RSMo 1994, requires the city to obtain annual audits of the combined water works and sewage system, and the cost of the audits is to be paid from the revenues received from the system.

In addition to being required by state law, annual audits of the city funds would help:

- 1) Ascertain the stewardship of the public officials who handle and are responsible for the financial resources of the city.
- 2) Determine the propriety and accuracy of its financial transactions.
- 3) Ensure revenues of the system are adequate to meet the expenses of providing the service.

E.1. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. The individual customer account sheets report the gallons of water used each month from the individual meter readings. The maintenance supervisor records the daily meter readings from the city's well, but the gallons pumped are not reconciled to the total gallons billed. The gallons of water billed in January 2000 were 23 percent less than the gallons of water pumped. The Public Service Commission generally recommends investigation if the usage not billed exceeds 15 percent.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water pumped to the gallons of water billed on a monthly basis and investigate significant differences.

2. The city does not adequately account for water meter deposits. The city requires each customer to pay a refundable water meter deposit. These monies are credited to the Meter Deposit Fund. The city currently has approximately 200 customers and the balance in the fund as of June 30, 2000, was \$2,077. The meter deposit was \$10 until it was increased to \$25 in August 1983. Based on the number of customers and the balance in the Meter Deposit Fund, it appears the balance may not be enough to cover meter deposits for existing customers.

A permanent summary record listing the customer deposits held at any particular date has not been established. The only record the city maintains of customer deposits is the copy of the receipt slip issued to the customer at the time of payment and the fund ledger which indicates the total deposit collected each month along with refund information which includes the date, customer name and refund amount. Without a listing of customer deposits the risk of refunding an incorrect amount is increased.

A permanent summary record listing the customer deposits would allow for periodic reconciliations between deposits, refunds and cash on hand. Without these reconciliations, the possibility of errors going undetected is increased. In addition, the city should determine what the correct balance of the Meter Deposit Fund should be and transfer any necessary funds from the Water Fund.

- F. The city has not created and funded all reserve accounts required by its sewer revenue bond. In September 1996, the city issued \$100,000 in revenue bonds to partially finance the construction of extensions and improvements of the sewer system.

The revenue bond covenant requires the establishment of a Debt Service Reserve Account to be funded by a monthly transfer of approximately \$49 beginning October 1996 until the balance reaches \$5,900. These funds are to be expended only to prevent any default in the payment of interest on or principal of the bond. In addition, the bond covenant requires the establishment of a Depreciation and Replacement Account to be funded by a monthly transfer of approximately \$49 beginning in October 1996 until the balance reaches \$5,900. These funds are to be expended only for the purpose of making unusual or extraordinary replacements and repairs in and to the sewer system. A portion of monthly sewer fees is to be used to fund the reserve accounts; however, all monies are deposited into the Sewer Fund. As of June 30, 2000, the balances in each of these accounts should have been \$2,213.

The failure of the city to adequately maintain the required reserve accounts could allow the bondholders to take legal action to force compliance or immediate payment of the bond.

- G. The city has not established procedures to ensure all customers receiving trash services are billed. The city's maintenance employee indicated he is not provided with a list of customers, but collects trash wherever it is set out. As a result, the city may not be billing all customers to whom service is provided and losing revenue.

**WE RECOMMEND** the Board of Aldermen:

- A. Require the City Clerk to maintain a summary record of billings and payments and to perform monthly reconciliations of the amounts billed to amounts collected and delinquent accounts.
- B. Ensure delinquent utility account lists are prepared and periodically reviewed by the board and take all necessary steps to ensure timely collection of delinquencies.
- C. Establish an account number system and control log to ensure all utility customers are accounted for and billed for services.
- D. Ensure annual audits of the water and sewer system are obtained.
- E.1. Compare the gallons of water pumped to the gallons billed on a monthly basis and investigate significant differences.

- 2. Ensure a list of all water meter deposits is prepared and reconciled to the balance in the Meter Deposit Fund. The board should transfer the necessary monies from the Water Fund to cover any deficiency.
- F. Establish and fund all accounts required by the bond covenants. In addition, the board should determine how much should be transferred into the Debt Service Reserve Account and the Depreciation and Replacement Account from the Sewer Fund.
- G. Establish procedures to ensure all customers receiving trash services are billed.

**AUDITEE'S RESPONSE**

A,C,

*&E.1. The board agrees and indicated the city will implement these recommendations by the end of calendar year 2000.*

*B. The board agrees and indicated it has already implemented the recommendation. The city has collected a significant portion of the delinquencies noted and has established payment agreements for most delinquent accounts. The board will continue to closely monitor delinquent accounts.*

*D. The board agrees and will try to ensure annual audits are obtained.*

*E.2,*

*&G. The board agrees and will try to implement these recommendations by the end of calendar year 2000.*

*F. The board agrees and believes the prior city clerk has already established these accounts. However, if it discovers the accounts have not been established, this will be done immediately. The board also indicated it will begin making the required monthly transfers immediately and will develop a plan to repay the accumulated accounts owed.*

<b>4.</b>	<b>Disbursements</b>
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- A. The city's purchasing ordinance requires advertising for sealed competitive bids for all purchases of goods and services exceeding \$100. However, we noted bids or proposals were not solicited, or bid documentation was not retained, for several purchases. Following are some examples:

Asphalting	\$ 9,654
Insurance	9,044
Trucks	4,300
Truck repairs	1,016
Sewer materials	273
Chemicals	795
Grant application services	350

The Mayor indicated that informal phone quotes were usually obtained from several vendors; however, documentation of the quotes was not maintained.

Competitive bidding helps ensure the city receives fair value by contracting with the lowest and best bidders. Bidding helps ensure all parties are given an equal opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bids, or by advertised sealed bids. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the winning bid was selected.

- B. The Board of Aldermen indicated it reviews and approves all invoices prior to payment. However, the approval is not documented on the invoices or listing of bills to be paid. The only documentation of the board's approval is a general statement in the minutes that bills were approved. Without documentation of approval on the invoices and/or the listing of bills, it is not clear which invoices were approved.

In addition, no one independent of the check preparation and signing process compares actual checks written with the approved invoices and approved listing of bills.

All disbursements should be closely scrutinized by the board or someone independent of the disbursement process and properly authorized. Failure to properly review all invoices and other supporting documentation, and to document authorization, increases the possibility of inappropriate disbursements occurring.

- C. The city did not have bills-of-sale, purchase contracts, or invoices to support the purchase of two pickup trucks costing \$3,000 and \$1,300.

All disbursements should be supported by paid receipts or vendor-provided invoices to ensure the obligations were actually incurred and the disbursements represent appropriate uses of public funds.

- D. The city entered into several installment loans with a local bank. A 10-year loan was obtained in July 1998 for the purchase of the city hall totaling \$30,371. Another loan was for 30 months obtained in March 1999 for the purchase of a

1987 pickup truck totaling \$3,863. The contracts obligate the city to payments up to 10 years without any option to renew the contracts on a yearly basis.

Article VI, Section 26(a), of the Missouri Constitution states that no city shall become indebted in an amount exceeding in any year the income and revenue provided for such year plus any unencumbered balances from previous years, except as otherwise provided in the constitution. Article VI, Section 26(c), of the Missouri Constitution allows cities to incur debt by bond issue only after approval of two-thirds of the qualified electors voting thereon.

The city's beginning balance and anticipated revenue for fiscal year 1999 was already obligated when it entered into the loan agreements for these purchases, and it had already allocated all but \$2,669 of its total available funds. Extending the contracts over multi-year periods without the right of withdrawal obligates the city for future periods which appears to violate the intent of the Missouri Constitution on legal indebtedness absent a vote of city taxpayers.

- E. The city financed its premiums for various insurance policies with one company at a 16.25 percent and 17 percent interest rate through an insurance premium financing company for the fiscal years ended June 30, 2000 and 1999, respectively. For that period, the finance charges totaled \$182 and \$210, for insurance premiums totaling \$4,088 and \$3,778, respectively.

This method of paying insurance premiums is very costly. The city should seek other alternatives to reduce the amount of finance charges being paid for insurance premiums, including contacting the insurance company to determine if it will accept periodic payments. The insurance company indicated to us that semi-annual, and possibly quarterly, deferred payments can be made with no finance charge.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure bids are solicited for all applicable purchases in accordance with city ordinance. Documentation of the bidding process should be maintained in all cases. If the city believes that it is not practical to obtain bids on certain purchases, documentation explaining why bids were not obtained should be maintained.
- B. Ensure the board's approval of invoices is documented. In addition, approved invoices and listings of bills should be compared to checks written by someone independent of the check preparation and signing process.
- C. Ensure all disbursements are supported by paid receipts and/or vendor-provided invoices which contain an adequate description of the goods and services received.

- D. Not incur debt in violation of the constitution.
- E. Seek other alternatives for paying the city's insurance premiums to reduce the finance charges currently being paid.

**AUDITEE'S RESPONSE**

- A. *The board agrees with the recommendation and indicated it will probably need to consider changing the ordinance to establish more reasonable thresholds. In addition, the board will ensure the city complies with the ordinance and maintains applicable documentation.*
- B&E. *The board agrees and will attempt to implement these recommendations immediately.*
- C. *The board agrees with the recommendation and indicated it will ensure supporting documentation for purchases is retained.*
- D. *The board agrees and will ensure the recommendation is followed in the future.*

**5. Accounting Controls and Procedures**

- A. The City Clerk also serves as the City Treasurer and City Collector, and is responsible for all of the record keeping duties of the city. These duties include receiving and depositing monies, preparing invoices for payment, preparing and co-signing checks, performing bank reconciliations, and preparing monthly financial reports. The City Clerk also performs all functions related to generating monthly utility bills, receipting and recording utility payments, making credit adjustments, monitoring delinquent accounts, and initiating service shutoff orders. The board does not provide adequate supervision or an independent review of the work performed by the City Clerk.

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. This situation does not allow the separation 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 segregating these offices is not feasible, at a minimum, procedures for adequate independent review should be established.

- B. The City Clerk, the Mayor, and a designated alderman are authorized to sign checks. Although dual signatures are required on each check, only the City Clerk is bonded. Failure to properly bond individuals who have access to funds exposes

the city to risk of loss. In addition, the bond covenants for the city's sewer revenue bonds require all officers handling funds and accounts of the system to be adequately bonded.

- C. Receipts are not deposited intact. While deposits are made daily, varying amounts of cash were withheld from deposits to use as a change fund. In addition, the City Clerk did not indicate the method of payment on the daily collection sheet. To adequately safeguard receipts and reduce the risk of loss or misuse of funds, deposits should be made intact and the composition of receipts should be documented and reconciled to the amount deposited. If a change fund is needed, it should be established and maintained at a constant amount.
- D. While the bank balance is reconciled to the check register balance, it is not reconciled to the fund ledger balances. For the year ended June 30, 2000, the bank balance was \$556 less than the total fund ledger balances of all city funds. In addition our review of the fund ledgers disclosed several errors in the fund balances. Adequate reconciliation procedures ensure errors or irregularities are detected in a timely manner.
- E. The city maintains two non-interest bearing bank accounts. The average month-end bank balance in the general account for the year ended June 30, 2000, was \$25,068. To maximize revenues, city monies should be deposited into interest-bearing accounts.
- F. The city has not prepared or maintained permanent, detailed property records for fixed assets, including the cost of land, buildings, equipment, and furniture owned by the city. Also, annual physical inventories are not performed.

Property records are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage.

To develop appropriate records and procedures for fixed assets, the city needs to undertake a comprehensive review of all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original value is not available. The city should properly record all fixed asset transactions and ensure the accuracy of the recorded fixed assets. Periodically, the city should take physical counts of its assets and compare to the detailed records.

**WE RECOMMEND** the Board of Aldermen:

- A. Appoint separate individuals to the positions of City Clerk, City Collector and City Treasurer. If this is not possible, at a minimum, procedures for an adequate independent review should be established.

- B. Obtain bond coverage for all persons with access to city assets.
- C. Ensure monies are deposited intact and the composition of receipt records is reconciled to bank deposits. In addition, the change fund should be maintained at a constant amount.
- D. Ensure bank balances and the check register balance are reconciled to the total fund ledger balances each month.
- E. Ensure city monies are deposited into interest bearing accounts.
- F. Establish property records for fixed assets that include all pertinent information for each asset, such as a tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.

**AUDITEE'S RESPONSE**

- A. *The board agrees and will establish procedures to ensure an independent review is performed immediately.*
- B. *The board agrees with the recommendation and indicated it will look into obtaining bond coverage for all applicable officials.*
- C&E. *The board agrees and has already implemented these recommendations.*
- D. *The board agrees and indicated the City Clerk is now working on these reconciliations.*
- F. *The board agrees and will implement this recommendation immediately.*

<p><b>6. Ordinances, Records, and Board Minutes</b></p>
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- A. Improvement is needed in the organization and documentation of the city's ordinances. The ordinances were last codified in March 1982 and many of the ordinances are old and outdated. In addition, a listing of ordinances passed since the last codification is not maintained. Instead, updated ordinances are kept in a file by the year they were adopted, making it difficult to locate the latest update to an ordinance or determine if an ordinance has been updated or rescinded since the last codification.

Since ordinances represent legislation which has been passed by the Board of Aldermen to govern the city and its residents, it is important that the city's ordinances be maintained in a complete, well organized and up-to-date manner. An index of all ordinances passed and repealed by the city could help keep track of additions and changes made to the city ordinances.

- B. The city does not have a formal policy regarding public access to city records. A formal policy regarding access to and copies of city records would establish reasonable guidelines for the city to make the records available to the public. This policy should establish a contact person, an address for mailing such requests, and the cost for providing copies of public records.

Section 610.023, RSMo Cumulative Supp. 1999, lists requirements for making city records available to the public. Section 610.026, RSMo Cumulative Supp. 1999, allows the city to charge fees for copying public records, not to exceed the city's actual cost of document search and duplication.

- C. The board minutes are prepared by the City Clerk; however, they are not signed by the Mayor, the Clerk, or any of the board members.

The board minutes should be signed by the Clerk, and the Mayor, or a designated member of the board, to provide an independent attestation that the minutes are a complete and correct record of matters discussed and actions taken during the board meetings.

- D. The board meeting minutes do not always include sufficient detail of matters discussed or action and votes taken. For example, the minutes did not document the various options discussed prior to the purchase of the new city hall land and building in July 1998, the gift of a 1975 truck to the maintenance employee in July 1999, the sale of a 1987 truck to the Mayor's father-in-law in January 2000, or approval of the City Clerk's raise in June 2000.

Section 610.020, RSMo 1994, requires minutes of meetings be taken and retained by all governmental bodies and to include the date, time, place, members present, members absent, and a record of votes taken. Complete and accurate minutes of the board's meetings are necessary to retain a record of the business conducted and to provide an official record of board actions and decisions.

**WE RECOMMEND** the Board of Aldermen:

- A. Update and codify the city's ordinances and ensure a complete set of ordinances is maintained. In addition, the city should consider establishing an index of all city ordinances passed and rescinded.
- B. Establish formal written policies and procedures regarding public access to and/or copies of city records.
- C. Ensure all board minutes are properly signed, to attest to their accuracy.
- D. Ensure complete and accurate minutes of the board's meetings are maintained, including all significant discussions, actions and votes taken, and information required by state law.

## **AUDITEE'S RESPONSE**

- A. *The board agrees with the recommendation. The board indicated the city has already begun updating the ordinances; however, the project will take time to complete and the board cannot commit to an implementation date at this time.*
- B&C. *The board agrees and will implement these recommendations immediately.*
- D. *The board agrees and will begin reviewing immediately to ensure board meeting minutes are complete.*

<b>7. Budgets and Financial Reporting</b>
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- A. The budgets for the years ended June 30, 2001, 2000, and 1999 do not include a budget message or general budget summaries describing the important features of the budgets and major changes from the preceding years. The budgets combine receipts and disbursements of all funds into one budget rather than presenting a separate budget for each fund. They also do not include a statement of estimated or actual revenues and expenditures for the two preceding budget years, or the beginning and estimated ending available resources. In addition, the Board of Aldermen does not periodically compare actual revenues and expenditures to the budgeted amounts. While the board receives a monthly report of actual receipts and disbursements, this report does not include a comparison to amounts budgeted.

Sections 67.010, RSMo 1994, requires each political subdivision of the state to prepare an annual budget with a budget message and comparisons of actual revenues and expenditures for the two preceding fiscal years. Prior year comparisons of actual revenues and expenditures need to be included to help ensure accurate amounts are budgeted. A budget should include appropriate revenue and expenditure estimations by classification, and include the beginning available resources and reasonable estimates of the ending available resources. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area.

- B. During the years ended June 30, 2000 and 1999, the city approved expenditures in excess of budgeted amounts totaling \$21,819 and \$39,743, respectively. For the year ended June 30, 1999, expenditures exceeded the budgeted amounts largely due to the purchase of the new city hall, which cost \$30,000. The city did not prepare an amended budget, nor did the city adopt a resolution authorizing 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 increases.

- C. A formal maintenance plan for city streets has not been prepared annually. A maintenance plan should be prepared in conjunction with the annual budget and include a description of the streets to be worked on, the type of work to be performed, a cost estimate, the dates such work could begin, and any 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. During the years ended June 30, 2000 and 1999, street repair expenditures totaled \$7,143 and \$6,433, respectively.

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 continually and more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

- D. While the city published semi-annual financial statements, the financial statements only presented the beginning cash balance, total receipts, total disbursements, and ending cash balance of each fund presented. The various revenue sources and disbursement categories were not shown.

Section 79.160, RSMo 1994, requires the board of aldermen to prepare and publish semi-annually, a full and detailed account of the receipts, disbursements, and indebtedness of the city. Complete financial statements are necessary to keep the citizens informed of the financial activity and condition of the city.

**WE RECOMMEND** the Board of Aldermen:

- A. Prepare budgets that contain all information as required by state law. In addition, the board should periodically compare actual revenues and expenditures with budgeted amounts to monitor city finances and ensure actual expenditures do not exceed budgeted amounts.
- B. Ensure actual expenditures do not exceed budgeted amounts. If circumstances require expenditures in excess of amounts budgeted, a formal resolution should be adopted authorizing the additional expenditures and documenting the reasons for such before they are incurred.
- C. Prepare a formal maintenance plan for city streets at the beginning of the 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.
- D. Publish complete, detailed semi-annual financial statements of all of the financial activity and indebtedness of the city.

## **AUDITEE'S RESPONSE**

- A. *The board agrees and will ensure budgets are complete, beginning with the fiscal year 2002 budget. In addition, the board indicated it will begin immediately to monitor city finances more closely.*
- B. *The board agrees and will begin immediately to monitor the budgeted and actual expenditures and will prepare budget amendments when necessary.*
- C. *The board agrees that a maintenance plan is a good tool and should be done, as long as the plan remains flexible. The board indicated it will begin working on its street maintenance plan between now and Spring 2001.*
- D. *The board agrees and will implement the recommendation when the next semi-annual financial statements are prepared.*

**8.**

### **Personnel Policies and Procedures**

A. We noted the following concerns regarding compensation to employees:

- 1) The city paid the maintenance employee an additional \$200 on July 16, 1999. Also, while the former police officer resigned effective July 2, 1999, the city paid him \$200 on July 16, 1999 and on July 30, 1999. The Mayor indicated these were partial retroactive payments of raises which had been previously approved a year earlier. There is no documentation of additional hours worked by these employees to support the payments and they were apparently additional payments for services previously rendered. Therefore, these payments appear to be bonuses. In addition, all city employees received a \$50 and \$25 Christmas bonus in December 1999 and 1998, respectively.

The bonuses appear to represent additional compensation for services previously rendered and violate Article III, Section 39 of the Missouri Constitution. Attorney General's Opinion No. 72, 1955 to Pray, states, "...a government agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

- 2) In December 1998, a city employee received his payroll check one week in advance of the date earned. Also, in June 1998, the city loaned the former police officer \$500 to be repaid weekly in \$25 installment payments. The amount was deducted from the employee's weekly payroll check until the loan was paid in full on October 28, 1998.

Such payments appear to violate Article VI, Section 23 of the Missouri Constitution which prohibits any political subdivision of the state from granting or lending money to an individual. In addition, it is not prudent for a city to compensate employees in advance. Doing so could result in the city paying an individual for services not performed.

- B. The city has not adopted an annual ordinance to establish the compensation or the term of office of the City Clerk and other employees. The budgets also do not provide a detail of salaries paid to each appointed official and employee. During our audit, the new City Clerk received a \$50 per week raise effective June 1, 2000. Also, in March 2000, the board approved free water, sewer, and trash services for all full-time employees, as a benefit to city employees, but did not adopt an ordinance to establish the additional compensation.

Sections 79.270 through 79.320, RSMo 1994, require that duties, powers, compensation, and the term of office of city officials and employees be established by ordinance. Also, compensation rates set by ordinance, in addition to meeting statutory requirements, document the approved amounts to be paid and reduce potential misunderstandings regarding the amount of pay each city official and employee is to receive. In addition, ordinance hearings provide for public input and information concerning the salaries and benefits paid.

- C. The city has three full-time employees and three part-time employees. Full-time employees do not prepare time sheets. As a result, there is no documentation to support the city's allocation of payroll expenditures to the various funds. Time sheets are necessary to document hours actually worked, substantiate payroll expenditures and the allocation of payroll costs to the various funds, and to provide the board with a method to monitor hours worked.
- D. Records of vacation and sick leave earned and used are not maintained. City ordinance requires the City Clerk to maintain records of vacation leave allowance and use. Adequate documentation of leave time earned and used is necessary to ensure that leave time is not abused.

**WE RECOMMEND** the Board of Aldermen:

- A.1. Refrain from paying bonuses or additional compensation for services previously rendered.
  - 2. Discontinue the practice of paying employees in advance or making loans to employees.
- B. Establish by ordinance the salaries or pay rates and applicable terms of office for all officials and employees, and ensure changes to these officials' compensation do not occur during a term of office, in accordance with state law.

- C. Require time sheets be completed for each employee showing actual hours worked by function or activity as a basis to properly allocate payroll costs to the appropriate funds and to monitor hours worked.
- D. Require the City Clerk to maintain records of vacation and sick leave.

**AUDITEE'S RESPONSE**

- A.1. *The board agrees with the recommendation but disagrees that the payments in July 1999 were bonuses. It indicated these were retroactive payments for raises previously agreed upon. The board indicated it will not pay any bonuses or make retroactive raises in the future.*
- A.2. *The board agrees with the recommendation and indicated this practice has not happened again since December 1998.*
- B&C. *The board agrees and will address these recommendations immediately.*
- D. *The board agrees and will develop leave records as soon as possible.*

<b>9.</b>	<b>Restricted Revenues</b>
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Procedures have not been established to ensure expenditures are properly allocated among the various funds benefiting from the expenditures and to ensure restricted revenues are expended only for their intended purposes.

The police officer's salary was primarily paid from the General Fund until April 2000 when the city began paying it out of the Motor Fuel Fund. The City Clerk, assistant City Clerk, and maintenance employees' salaries are paid from the General Fund, Water Fund, Sewer Fund, Solid Waste Fund and the Motor Fuel Fund. While the clerks and maintenance employees are responsible for various duties related to city utilities such as collection and billing, reading water meters, and collecting trash, the salaries are not allocated based on work performed. The former City Clerk indicated expenses are paid from the funds that have available cash balances. As noted in MAR No.8 C, time sheets are not prepared by all employees for use as a basis to allocate payroll costs and shared expenses.

Of the \$34,000 in net salaries paid to the City Clerk, assistant City Clerk, and maintenance employees for the fiscal year ended June 30, 2000, approximately \$4,697 was paid from the Motor Fuel Fund even though these employees did little or no work on street projects. However, \$7,755 of the police officer's net salary was paid from the General Fund, but would have been an allowable expenditure from the Motor Fuel Fund. The Missouri Constitution, Article IV, Section 30(a) (2), requires the city to use those funds only for construction, reconstruction, maintenance, repair, policing, signing, lighting, and cleaning roads and streets. Documentation to support the number of hours

worked related to streets, is necessary to ensure the city is using motor fuel related receipts to pay only expenses authorized by state law.

It is essential that the city properly allocate expenses to the various funds. In January 1999, the board authorized an increase in trash rates. Allocation of expenses is necessary for the city to ensure the water, sewer and trash rates are sufficient to cover the cost of providing the service without generating profits to subsidize other city services. Furthermore, the uses of certain funds, such as motor vehicle-related revenues, are limited by state law for specified purposes. Therefore, documentation and proper allocation of expenses is useful for both management and compliance purposes.

**WE RECOMMEND** the Board of Aldermen ensure all expenditures are properly allocated to the various funds and the allocations are supported by adequate documentation.

**AUDITEE'S RESPONSE**

*The board agrees and will begin implementing the recommendation immediately; however, it indicated that developing the methodology for allocating expenditures to the various funds will take some time and it cannot commit to when this will be fully implemented.*

<b>10. City-Owned Vehicles</b>
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The city has one patrol car, a trash truck, and two pickup trucks. During our review of the city's policies and procedures for protecting the city's interest in these vehicles, we noted the following concerns:

- A. Logs which document vehicle usage are not adequately maintained. The City Clerk began maintaining a gasoline usage log in June 2000. While the log documents the date, the vehicle, and number of gallons pumped from the city's gas pump, the vehicle's odometer reading is not documented. The city's maintenance employee fueled his personal vehicle (which he began using for city business after the city's maintenance truck broke down in April 2000) ten times in twenty days totaling approximately 134 gallons of gasoline, and the police officer fueled the patrol car eleven times during the same period totaling 123 gallons of gasoline. Odometer readings would help ensure fuel is used in the identified vehicle and would allow for the calculation of fuel efficiency to evaluate the reasonableness of fuel usage.

Logs are necessary to document appropriate use of the vehicles and to support gasoline expenditures. The logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. These logs should be reviewed by a supervisor to ensure all mileage is recorded, the vehicles are being properly utilized, and to help

identify vehicles which should be replaced. Information on the log should be reconciled to gasoline usage/purchases and other maintenance charges.

- B. The city owned a 1975 pickup truck which broke down and was going to require significant repairs. Rather than repair the truck it was sold to a sole bidder in April 1999. In March 1999, the city purchased a 1987 pickup truck for \$3,000 to replace the 1975 truck. Over the following eight months, the city spent approximately \$800 in repairs and discussed the need for an additional \$3,000 in repairs to the truck. In January 2000, the city sold the 1987 truck for \$1,300 and in February 2000 purchased a 1986 pickup truck for \$1,300. In April 2000, the engine on the 1986 truck quit, with repair costs estimated at \$3,800. Our review of the purchase and sale of these vehicles disclosed several problems as follows:

- 1) Based on our review of the board meeting minutes, the sole bid for the 1975 truck was from the maintenance employee. The minutes documented the approval of the sale of the truck to the employee for \$500. While title was transferred to the employee, the city was never paid for the truck. According to the Mayor, the truck was instead given to the employee in lieu of the rest of a retroactive raise he was to receive in July 1999.

The board meeting minutes did not document the board's discussion or approval of giving the truck to the maintenance employee. As noted in MAR No. 8, such a gift or bonus would be prohibited by Article VI, Section 23 of the Missouri Constitution.

- 2) In January 2000, the city sold the 1987 truck to the Mayor's father-in-law without publicizing or soliciting bids. The Mayor indicated he was not involved in the decision to sell the truck to his father-in-law. However, when we questioned two of the current aldermen who served on the board at the time about the sale, neither of them could remember any of the details of the sale. The board meeting minutes do not document the board's discussion or approval of the sale of the truck, thus it is not clear who authorized the transaction.

The board should publicize or solicit bids to ensure the best price is obtained for property sold. Documentation of bids received should be maintained.

Discussions and decisions concerning transactions where potential conflicts of interest exist should be completely documented so that the public has assurance that no city official or city employee has benefited improperly. In addition, the board should consider establishing a policy which addresses these types of situations and provides a code of conduct for city officials.

- 3) The city trash truck, police car, and maintenance trucks purchased in the past few years have required significant repairs. When the 1986 truck stopped working in April 2000, the maintenance employee began using the 1975 truck for city business that the city had previously given him. The city has purchased a number of pieces of used equipment which required significant repairs within a short time after purchase. The Mayor and former City Clerk indicated that the city's lack of funds prevents the city from purchasing new equipment. However, the city has not prepared a feasible plan for replacing its vehicles or equipment. With adequate planning and a conscientious effort to build up the city's reserves for equipment replacement, the city would be in a better position to purchase better quality equipment.

**WE RECOMMEND** the Board of Aldermen:

- A. Maintain complete and accurate usage logs for each vehicle. The logs should be reviewed by a supervisor or the board periodically for completeness and reasonableness.
- B.1.  
&2. Avoid apparent conflicts of interest and ensure board meeting minutes clearly document discussions and decisions concerning transactions where potential conflicts of interest exist. In addition, the board should consider adopting a code of conduct for city officials and refrain from granting anything of value to city employees.
- B.3. Establish a feasible plan for replacing the city's vehicles/equipment.

**AUDITEE'S RESPONSE**

- A. *The board agrees and will implement the recommendation immediately. It indicated that it has already begun to monitor the usage records and will continue to do so. It indicated it is also in the process of replacing the city truck so it is not necessary for the employee to use his private vehicle.*
- B.1.  
&2. *The board agrees with the recommendation and that it is important to avoid actual conflicts as well as the appearance of conflicts of interest. The board will ensure in the future that all discussions are fully documented in the board meeting minutes.*
- B.3. *The board agrees that planning is necessary, but feels that given the city's current financial condition, full implementation may be out of the board's control. It indicated that it will continue to work on strengthening the city's financial condition.*

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

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