



CITY OF EVERTON, MISSOURI

YEAR ENDED JUNE 30, 1999

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

Report No. 2000-17  
March 16, 2000

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

March 2000

**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 Everton, Missouri.**

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Cash receipts totaling \$837 were missing from three utility deposits made on September 2, 1999. Other receipts totaling \$534 were not deposited, and there is documentation of only \$66 of cash disbursements from these monies. The city paid Marchelle Roe \$3,372 for clerical services from December 1997 to August 1999 while she served the city as the Mayor and as Alderwoman. In addition, she was overpaid \$89 during September when she served as City Clerk. Marchelle Roe purchased some computer equipment for personal use with the city's credit card, and a city computer was stored at Marchelle Roe's personal residence after the Board of Aldermen voted to sell the computer.

In April 1998, Marchelle Roe installed a mobile home and was connected to city water and sewer. City receipt records do not indicate that a hook up fee of \$350 was collected from Marchelle Roe, as required by city ordinance. In addition, she was unable to provide documentation (receipt/canceled check) of payment. The Board of Aldermen should review the situation and ensure the \$350 hook up fee is properly paid and deposited.

Board minutes are not prepared for closed meetings and the Board of Aldermen conducted business during closed meetings that does not appear to meet the requirements of state law. The board minutes of open meetings did not document the related vote and the specific reasons for going into closed session. The Board of Aldermen changed the city's ward boundary, resulting in the legal status of two aldermen positions being questioned. The city appointed an alderman to the board that had not been a resident of the city for one year. Board minutes were not always signed by the City Clerk and Mayor, and the city has not established a formal policy regarding public access to city records.

The city does not have a formal bidding policy, and the Board of Alderman does not always review and approve payment of city expenditures prior to the disbursements being made.

(over)

The city employs one individual for sewer related services. During the year ending June 30, 1999 he

YELLOW SHEET

was paid a salary of \$14,400. The city also paid \$16,661 in contract labor payments to a business owned by this employee for water and street related services, such as gravel hauling, backhoe services, and meter reading services. During our review of this situation we noted the following:

1. There is no documentation that bids or proposals were solicited from other sources for the contract labor payments.
2. Time sheets are not prepared to support salary payments.
3. The city pays the sewer employee a vehicle allowance of \$100 each month for the use of his personal vehicle. No documentation of actual miles driven is prepared to support this allowance.

The city deposits motor-vehicle-related revenues into the general fund, and documentation did not exist to support the allocation of some expenditures from restricted funds.

The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. A formal review of the city's water and sewer rates is not performed annually.

No independent verification of the tax books is performed, and the City Collector makes all addition and abatements to the tax books without review or approval by the Board of Aldermen. The City Collector does not prepare monthly or annual reports of taxes collected as well as those that remain delinquent, and the city has not adequately pursued the collection of delinquent property taxes.

City budgets did not comply with state law, and semi-annual financial statements were not published as required by law.

CITY OF EVERTON, MISSOURI

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STATE AUDITOR'S REPORT



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

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
City of Everton  
Everton, Missouri 65646

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Everton, Missouri. The city had engaged O'Dell & Company, Certified Public Accountants (CPA firm) to perform a financial audit of the city for the year ended June 30, 1999. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. Our audit of the city included, but was not limited to, the year ended June 30, 1999. The objectives of this audit were to:

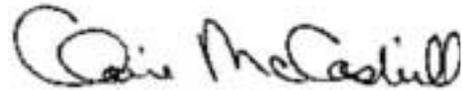
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which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

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

A handwritten signature in black ink, appearing to read "Claire McCaskill". The signature is written in a cursive, somewhat stylized font.

Claire McCaskill  
State Auditor

November 19, 1999 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	Donna Christian, CPA
In-Charge Auditor:	Pam Crawford, CPA
Audit Staff:	Amy Fast Rachel Little

## HISTORY AND ORGANIZATION

CITY OF EVERTON, MISSOURI  
HISTORY AND ORGANIZATION

The City of Everton is located in Dade County. It was incorporated in 1892 as a fourth-class city. The population of the city in 1990 was 325.

The city government consists of a mayor and four-member Board of Aldermen. The four board members are elected for two-year terms. The mayor is elected for a two-year term, presides over the Board of Aldermen, and votes only in case of a tie. The Mayor, Board of Aldermen, and other principal officials at June 30, 1999, were:

<u>Elected Officials</u>	<u>Term Expires</u>	Actual Compensation for the Year Ended <u>June 30, 1999</u>	<u>Amount Of Bond</u>
Marchelle Roe, Mayor (1)	April, 2000	\$ 2,670	\$ 0
Bonnie Mallory, Alderwoman (2)	April, 2001	145	0
John Carroll, Alderman (3)	April, 2001	30	0
Nikki Redman, Alderwoman (4)	April, 2000	30	0
Jim Baier, Alderman (5)	April, 2000	40	0
 <u>Other Principal Officials</u>			
Loretta Hudson, City Clerk (6)		8,308	10,000
Linda Prichard, City Collector (7)		73	10,000
Lee Harmon, Police Chief (8)		4,380	0
Tom Pyle, City Attorney (9)		1,050	0

- (1) Appointed to replace Tom Turner who resigned in February 1999. Roe resigned as Mayor in August 1999 to become City Clerk and Bonnie Mallory was appointed as Mayor. Bonnie Mallory resigned as Mayor in September 1999, and was reappointed as Mayor in January 2000.
- (2) Resigned in August 1999, and Jerry Forsgren was appointed in September 1999.
- (3) Earl Mincks served as Alderman prior to January 1999. John Carroll resigned in January 2000 and James Weaver was appointed.
- (4) Appointed to replace Danny Rowden who resigned in March 1999.
- (5) Appointed to replace Marchelle Roe who resigned in February 1999 to become Mayor. Jim Baier resigned in July 1999 and June Mayfield was appointed in August 1999.
- (6) Resigned in July 1999 and Marchelle Roe was appointed in August. Roe resigned in September 1999, and Stephanie Gillaspay was appointed in October 1999. In November 1999, Stephanie Gillaspay was appointed to the new position of Utility Clerk and Paula Woods was appointed as City Clerk. Stephanie Gillaspay resigned in January 2000 and Marchelle Roe was appointed as Utility Clerk.
- (7) Bonnie Mallory served as City Collector prior to April 1999.
- (8) Resigned in August 1999, and in January 2000 John Dilly was appointed as Police Chief.

(9) Appointed to replace Terri Capuzzi in July 1998.

Assessed valuation and tax rate information for 1999 and 1998 are as follows:

ASSESSED VALUATION

	<u>1999</u>	<u>1998</u>
Real Estate	\$ 767,430	749,120
Personal Property	309,930	275,240
Railroad and Utility	<u>175,135</u>	<u>191,367</u>
Total	<u>\$ 1,252,495</u>	<u>1,215,727</u>

TAX RATES PER \$100 ASSESSED VALUATION

General Fund	\$ 1.00	1.00	
Park and Recreation Fund	<u>0.08</u>		<u>0.08</u>
Total	<u>1.08</u>		<u>1.08</u>

The city had the following sales tax; rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	.01	None

MANAGEMENT ADVISORY REPORT

CITY OF EVERTON  
SUMMARY OF FINDINGS

1. Undeposited Receipts and Questionable Transactions (pages 10-12)

Cash receipts of \$837 are missing from three deposits of utility monies made on September 2, 1999. Other cash receipts totaling \$534 were also not deposited, and there is documentation of only \$66 of cash disbursements from these monies. The city paid Marchelle Roe \$3,372 for clerical services from December 1997 to August 1999 while she served the city as the Mayor and as Alderwoman. In addition, she was overpaid \$89 during September when she served as City Clerk. Marchelle Roe purchased some computer equipment for personal use with the city's credit card, and a city computer was stored at Marchelle Roe's personal residence after the Board of Aldermen voted to sell the computer. City records do not indicate that a \$350 utility hook-up fee was collected from Marchelle Roe.

2. Board Meetings and Records (pages 12-15)

Board minutes are not prepared for closed meetings and the Board of Aldermen conducted business during closed meetings that does not appear to meet the requirements of state law. The board minutes of open meetings did not document the related vote and the specific reasons for going into closed session. The Board of Aldermen changed the city's ward boundary, resulting in the legal status of two aldermen positions being questioned. The city appointed an alderman to the board that had not been a resident of the city for one year. Board minutes were not always signed by the City Clerk and Mayor, and the city has not established a formal policy regarding public access to city records.

3. Expenditures (pages 15-17)

The city does not have a formal bidding policy, and the Board of Alderman does not always review and approve payment of city expenditures prior to the disbursements being made. Receipt of goods or services is not always indicated on the invoices. The city's sewer employee received \$16,661 for contract work that was not bid, does not prepare a time sheet for salary payments, and receives a monthly vehicle allowance that was not properly reported on his W-2. The city incurred late fees and unreasonable interest charges on a city credit card.

4. Restricted Revenues (pages 17-18)

The city deposits motor-vehicle-related revenues into the general fund, and documentation did not exist to support the allocation of some expenditures from restricted funds.

5. Water and Sewer System Procedures (pages 18-20)

The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. A formal review of the city's water and sewer rates is not performed annually, and several errors were noted on the city's computerized utility reports. Supporting documentation and approval of credit adjustments posted to the utility system is not maintained.

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

The City Clerk and the former City Collector served in incompatible positions as the City Treasurer and a member of the Board of Alderman, respectively. Receipt slips are not issued for all monies received, and receipts are not recorded until the deposit is made. Checks and money orders are not restrictively endorsed until the deposit is prepared. Deposits are not made on a timely basis, and cash receipts are withheld from deposits to make change and to purchase postage. Some persons authorized to sign checks are not bonded, and checks are sometimes signed in advance. Bank reconciliations are not performed monthly.

7. Property Tax Procedures (pages 22-24)

No independent verification of the tax books is performed, and the City Collector makes all addition and abatements to the tax books without review or approval by the Board of Aldermen. The City Collector does not prepare monthly or annual reports of taxes collected as well as those that remain delinquent. The city has not adequately pursued the collection of delinquent property taxes. The City Collector does not charge the correct penalty on delinquent taxes. Public hearings are not held on the city's proposed property tax rates.

8. Budgets and Financial Reporting (pages 24-25)

Budgets did not comply with the state law, and semiannual financial statements were not published as required by law.

9. Ordinances (page 25)

City ordinances are outdated and the index of ordinances is not current and accurate. The city has not prepared ordinances to document the approved tax levy for each year. Detail of the votes taken by specific board members for proposed ordinances is not maintained in the board minutes.

10. Property Records (pages 26)

The city has not established records to account for all property owned by the city.

CITY OF EVERTON  
MANAGEMENT ADVISORY REPORT

<b>1. Undeposited Receipts and Questionable Transactions</b>
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- A. The city of Everton operates a combined waterworks and sewerage system, and accepts cash, checks, and money orders for payment for water and sewer services. Utility monies are recorded on a computerized utility system; however, city personnel experienced difficulty in operating the system, and as a result, some information was lost and some reports produced by the system were not accurate.

In July 1999 the City Clerk resigned and Mayor Marchelle Roe and several board members performed the duties of City Clerk. On August 31, 1999 Marchelle Roe resigned as Mayor to become City Clerk.

Three deposits made by Marchelle Roe on September 2, 1999, did not include \$837 of cash receipts. These deposits were for water and sewer receipts received in mid July and for the month of August 1999. Marchelle Roe indicated that she was aware of the missing cash when she made the deposits, and advised several board members of the shortage. However, no action was ever taken by the Board of Aldermen to contact law enforcement authorities to investigate the misappropriated funds. Information regarding this matter has been turned over to the Dade County Prosecuting Attorney and the Missouri State Highway Patrol.

In addition, during the 16 month period ending in October 1999 utility collections exceeded deposits by at least \$534. City personnel indicated that cash receipts were sometimes used to purchase postage; however, the city provided postage receipts totaling only \$66.

Because the city's utility records were not complete and accurate, detailed reviews were very time consuming. Therefore, additional amounts may have been withheld from deposits in other months. Because of the control weaknesses, and inadequate record keeping the city has no assurance that undeposited receipts were spent on city business and were not misappropriated.

The city's auditor issued a qualified opinion on the city's financial statements due to a low utility collection rate and incomplete billing records.

- B. Marchelle Roe was appointed to the Board of Aldermen in December 1997 and resigned in February 1998. In April 1998 she was elected to the Board of Aldermen and in February 1999 she was appointed Mayor. In addition to the regular compensation allowed for her duties as Alderwoman and Mayor, \$3,372 was paid to Marchelle Roe from December 1997 to August 1999 for accounting and clerical duties. These services were not bid and supporting documentation could not be located to support these payments. In addition, authorization of this work was not documented in the board minutes except in January 1998.

These payments also represent potential violations of state law. Section 105.454, Supp. 1998, prohibits financial transactions between a city and an officer or employee (or spouse, dependent child, or business and corporate interest of the officer or employee) of that city that involved more than \$1,500 per year or \$500 per transaction unless there had been public notice to solicit proposals and (except for real property) competitive bidding, provided that the bid or offer was the lowest received.

- C. In March 1999, Marchelle Roe purchased some personal computer equipment costing \$530 at a nearby office supply store during a special interest free promotion, and charged it to the city's credit card. Marchelle Roe indicated that her computer equipment was to have been charged to her personal credit card, but was charged to the city's credit card in error. However, according to the office supply store Marchelle Roe did not open a credit card account with them until October 1999. While Marchelle Roe was responsible for reviewing and approving city invoices during this time period, this charge was not removed from the city's bill until October 1999 when the city's auditor brought this to her attention.

While the city had not made any payments toward the purchases, steps should be taken by the city to ensure all credit card purchases are reviewed and approved by the Board of Aldermen.

- D. The April 7, 1999 board minutes indicate the board's intention to sell a city computer that no longer worked. The computer had been periodically used by Marchelle Roe at her personal residence for city business, and was not returned to city hall until October 1999. City property should not be stored at personal residences, and assets should be disposed of on a timely basis when approved by the board.
- E. In April 1998 Marchelle Roe installed a mobile home and was connected to city water and sewer. City ordinance requires a hook up fee of \$350 for all new water and sewer connections. City receipt records do not indicate that a hook up fee of \$350 was collected from Marchelle Roe. In addition, she was unable to provide documentation (receipt/canceled check) of payment. The Board of Aldermen should review the situation and ensure the \$350 hook up fee is properly paid and deposited.
- F. The weekly payroll amounts paid to Marchelle Roe as City Clerk contained numerous calculation errors during the month of September 1999. As a result, she was overpaid approximately \$89. Although an alderman signed and approved her time cards, it does not appear that calculations were checked for accuracy. To ensure payments for salaries are accurate, computations should be recalculated.

**WE RECOMMEND** the Board of Aldermen:

- A. Work with law enforcement officials regarding any criminal prosecution and to obtain restitution of the misappropriated funds. Other cash receipts which may have been used to make cash disbursements should be reviewed and if not accounted for, reimbursement should be obtained. In addition, the board should ensure all monies received are deposited and disbursements made by check.

- B. Refrain from entering into business transactions with city officials unless such services or transactions are properly bid in accordance with state law.
- C. Ensure all credit card purchases are reviewed and approved by the Board of Aldermen.
- D. Establish a policy addressing the timely disposal of assets no longer used by the city.
- E. Review the situation and ensure the \$350 hook up fee is properly paid.
- F. Ensure salary computations are recalculated for accuracy.

**AUDITEE'S RESPONSE:**

- A. *We will take this into consideration. Cash is no longer withheld from receipts for purchases. All purchases are now made by check.*
- B&D. *We will take these recommendations into consideration.*
- C. *This is now being done.*
- E. *We will review this situation.*
- F. *We will review September's payroll.*

<b>2. Board Meetings and Records</b>
--------------------------------------

- A. The Board of Aldermen frequently hold closed meetings. During our review of closed meetings, we noted the following concerns:
  - 1. Minutes are not prepared to document matters discussed in closed meetings, and it is not clear that the final disposition is made public. Section 610.021, RSMo, Supp. 1999, requires certain matters discussed in closed session to be made public upon final disposition. In addition, closed session minutes are necessary to document and record official board decisions and actions affecting city government and the public, and to ensure compliance with the Sunshine Law.
  - 2. The Board of Aldermen has conducted city business at numerous closed meetings that does not appear to meet the requirements of Section 610.021, RSMo Supp 1999. It is not clear when the board approved an ordinance changing the ward boundary, at a closed or open meeting.

In addition, several appointments to vacant positions on the Board of Aldermen have been made in closed session. The Board of Aldermen indicated that the appointment of Alderwoman Mallory to the position of Mayor in August 1999 was made during a closed session meeting. Members of the board indicated that they believed this was a personnel issue and could be discussed during a closed meeting; however, Attorney General's Opinion No. 184, 1989 to Mathews, concluded that legislative bodies could not close a meeting to discuss prospective

appointments to citizen boards. Furthermore, Attorney General's Opinion No. 77, 1992 to Flotron, concluded that an elected mayor and city council members, even if they are paid, are not employees.

Section 610.021, RSMo, Supp. 1999, allows the city council to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, and personnel. In addition, this law provides that public governmental bodies shall not discuss any other business during the closed meeting which differs from the specific reasons justifying such meeting, record, or vote.

3. The Board of Aldermen often votes to close a portion of a regular open meeting, but board minutes do not always document the related vote and reasons for going into closed session. Section 610.022, RSMo, Supp. 1999, requires the board to vote prior to going into closed session and requires the results of the vote and the reasons for going into closed session to be entered into the minutes.

- B Section 79.060, RSMo 1994 allows the Board of Aldermen by ordinance to divide the city into two wards. As noted in Part A.2. the Board of Aldermen approved an ordinance in July 1999 to change the ward boundary of the City of Everton. Neither the ordinance or the board minutes indicate when the Board of Aldermen intended the boundary change to become effective. Three aldermen and the mayor indicated that the boundary change became effective in July 1999 and one alderman indicated that he believed the new boundary did not become effective until the next municipal election.

As a result of the boundary change, Alderman Carroll elected to the east ward became a resident of the west ward. In addition, in August 1999 Alderman Baier from the west ward resigned and Alderwoman Mayfield was appointed. While Alderwoman Mayfield was a resident of the west ward after the boundary change, she was a resident of the east ward before the change.

If the boundary change was effective in July 1999, then Alderman Carroll no longer resides in the ward he was elected to serve. If the boundary change was not effective in July 1999, then Alderwoman Mayfield did not reside in the ward she was appointed to serve. Section 79.070, RSMo 1994 requires an alderman to be a resident of the ward from which he is elected. However, regardless of when the effective date of the boundary change was to occur, the city has three aldermen living in the same ward. Section 79.060, RSMo 1994 requires two aldermen from each ward.

While Section 79.060, RSMo 1994 allows the Board of Aldermen by ordinance to divide the city into two wards, city officials did not ensure that the change of the city's boundary did not result in the violation of other state laws. To alleviate citizen concern on this issue, and ensure the city's aldermen are legally qualified to serve, the Board of Aldermen should review this situation with an attorney.

- C. Alderman Baier was appointed to the board in March 1999. He had moved to the City of Everton only 5 months earlier, in October 1998. Section 79.070, RSMo 1994, requires an alderman to be an inhabitant and resident of the city for one year prior to becoming an alderman.

- D. The board minutes are prepared by the City Clerk, but some minutes were not signed. 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.
- E. The city does not have a formal policy regarding public access to city records. A formal policy would establish guidelines for the city to make the records available to the public. This policy should establish a person to contact, provide an address to mail requests for access to records, and establish a cost to provide copies of public records.

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

**WE RECOMMEND** the Board of Aldermen:

- A. Limit closed meetings to only those purposes specifically allowed by state law. The board should ensure minutes state the specific reasons for going into a closed session and document the related vote, and ensure the final disposition of certain matters discussed at closed meetings is made public. The board should also ensure minutes are prepared for all closed meetings.
- B. Consult legal counsel to determine which aldermen are legally qualified to serve the city.
- C. Prior to appointment ensure candidates for city office possess the statutory qualifications for holding office.
- D. Ensure the board minutes are signed by the preparer and Mayor or a designated member of the board to attest to their accuracy.
- E. Establish written policies and procedures regarding the location of and public access to city records.

**AUDITEE'S RESPONSE:**

- A. *This has been corrected.*
- B. *We will work to resolve this issue.*
- C. *We relied on the advise of an attorney when making this appointment.*
- D. *This is now being done.*
- E. *We will take this into consideration.*

<b>3.</b>	<b>Expenditures</b>
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- A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. During the past year, bids were either not solicited or bid documentation was not retained in some instances. Examples include \$2,023 for gravel, \$1,803 for culverts, and \$1,000 for a fire truck.

Formal 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 helps ensure all parties are given an opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. The Board of Aldermen does not always review and approve the payment of city expenditures prior to the disbursements being made. A financial report is prepared monthly by the City Clerk which includes a detailed listing of all expenditures by fund; however, the expenditures represent the preceding month's activities. In addition, the Board of Aldermen approve a monthly consent agenda which is to represent approval of all recurring bills; however, there is no documentation to indicate which bills are included in the consent agenda.

Expenditures made from city funds should be reviewed and approved by the Board of Aldermen before payment is made to ensure all disbursements represent valid operating costs of the city. In addition, to adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the aldermen to denote their approval, and retained with the official minutes.

- C. Receipt of goods or services is not always indicated on the invoice prior to an expenditure being approved for payment. The documentation of the receipt of goods or services is necessary to ensure the city actually received the items or services being paid.

- D. The city employs one individual for sewer related services. During the year ending June 30, 1999 he was paid a salary of \$14,400. The city also paid \$16,661 in contract labor payments to a business owned by this employee for water and street related services, such as gravel hauling, backhoe services, and meter reading services. During our review of this situation we noted the following:

1. There is no documentation that bids or proposals were solicited from other sources for the contract labor payments. To ensure actual or apparent conflicts of interest do not exist, the city should obtain bids for all expenditures made to city employees and other related parties and award the contract to them only if they are the lowest bid.
2. Time sheets are not prepared to support salary payments. Time sheets are necessary to document hours actually worked, substantiate payroll expenditures, and provide the board with a method to monitor hours worked.

3. The city pays the sewer employee a vehicle allowance of \$100 each month for the use of his personal vehicle. No documentation of actual miles driven is prepared to support this allowance. Additional mileage payments totaling \$166 were also paid during the year ended June 30, 1999 for mileage not covered under the monthly allowance. However, there is no documentation to define exactly what vehicle expenses are covered through the monthly allowance. In addition, the vehicle allowance was not properly reported on the employee's W-2.

To ensure proper reimbursement of travel expense, formal guidelines should be established to define those expenses to be covered by employee vehicle allowances. In addition, Internal Revenue Code (IRC) Ruling 12-110 specifically requires expense allowances that are not accounted for to the employer to be considered gross income. To comply with the IRC, all compensation paid to city employees should have the required payroll taxes withheld and be properly reported.

- E. The City purchases office supplies with a city credit card. Although the city appears to have funds to pay for these supplies, only small monthly payments are made. During the year ended June 30, 1999, the city incurred finance charges of \$76 which computes to an interest rate of almost 21 percent. In addition, \$40 in late fees were also incurred.

The amount of interest and late fees paid appears unreasonable. There is no indication in the board minutes that this financing arrangement was approved by the Board of Aldermen, nor is there a written agreement with the office supply company.

All financing arrangements should be in writing and approved by the Board of Aldermen, and the city should ensure all finance charges are reasonable, and invoices are processed timely to prevent the assessment of late fees.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected. .
- B. Review and approve all expenditures of city funds prior to the disbursements being made. In addition, the approval of disbursements should be adequately documented by including a listing of all approved disbursements in the board minutes.
- C. Ensure the receipt of goods or services is indicated on invoices prior to them being approved for payment.
- D.1. Solicit bids for all purchases made from city employees and accept the lowest bid.
  2. Require the sewer employee to prepare time sheets.
  3. Establish guidelines defining those expenses to be covered by the employee vehicle allowance, and ensure all income is properly reported on employee's W-2. In addition, revised W-2's should be issued.

- E. Ensure all financing arrangements are approved by the board and avoid unreasonable interest and late fee charges. The board should consider early payoff of this account.

**AUDITEE'S RESPONSE:**

A &  
D.3. *We will take these recommendations into consideration.*

B, C,  
&D.2. *These recommendations have been implemented.*

D.1. *We will try to do this.*

E. *We will pay the balance of this account.*

<b>4. Restricted Revenues</b>
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- A. The city receives state motor vehicle-related revenues and deposits them into the General Fund. Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related revenues apportioned by the state of Missouri be expended for street-related purposes including policing, signing, lighting, and cleaning of roads and streets. The city has not established a separate fund or separate accounting for those revenues and expenditures and does not monitor the use of these funds to ensure compliance with the Missouri Constitution.

During the four years ended June 30, 1999, state motor vehicle-related revenues totaled \$49,205 compared to total street-related expenditures of \$58,903.

To ensure continued compliance with the Missouri Constitution, the city should establish a separate accounting of motor vehicle-related revenues and ensure these revenues are used only for street-related purposes.

- B. Documentation does not exist to support the allocation of some expenditures to the city's funds. We noted the following examples:
  - 1. The City Clerk's salary is allocated 75% to the Water and Sewer Fund and 25% to the General Fund. The City Clerk is not required to complete a time sheet that documents actual hours worked by activity or fund.
  - 2. Culverts totaling \$1,051 were purchased from the Water and Sewer Fund. While two culverts costing \$287 were installed at the sewer plant the remaining culverts costing \$764 were used for city streets.

The funds of the city are established as separate accounting entities to account for specific activities of the city. Generally accepted accounting principles and various legal restrictions require revenues and expenses associated with specific activities be reflected in the fund established to account for those activities.

Reflecting revenues and expenses in the proper fund is also necessary to accurately determine the results of operations of specific activities, thus, enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs. User rates should be set to cover costs of producing and delivering the service and not to generate profits to subsidize other services provided by city government.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish a special revenue fund or otherwise account for the motor vehicle-related monies to ensure compliance with applicable legal restrictions.
- B. Develop and implement a reasonable method for allocating common costs between the city's funds.

**AUDITEE'S RESPONSE:**

- A. *We are in the process of correcting this.*
- B. *We will ensure this is implemented in the future.*

<b>5. Water and Sewer System Procedures</b>
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- A. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. The City Clerk prepares monthly reports of the total number of gallons billed to customers and the water department records meter readings of the city's water well, so information is available to perform such reconciliations.

During June 1999 the gallons of water pumped exceeded the total gallons billed by 280,000, or 27 percent. The city's water department contractor indicated that he believed the loss was due to several leaks in water lines and meter problems.

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. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

- B. The city has not performed a formal review of the adequacy of the water and sewer rates. The city's audited financial statements show an operating loss of \$41,104 and \$33,478 in the Water and Sewer Fund during the years ending June 30, 1999 and 1998, respectively. Water and sewer fees are user charges which should cover the cost of providing the related services, but rates should not be set at a level which results in excessive fund balances. The city should perform a detailed review of its water and sewer costs, including depreciation and debt service costs, and set rates to cover the total costs of operation. A similar recommendation was made by the city's CPA during the annual audit for the year ending June 30, 1999.

- C. The city utilizes a computerized system to prepare bills and record payments of water and sewer utility fees. Meter readings are recorded on a hand-held computer monthly by the water department contractor. The City Clerk then generates and mails the monthly utility bills, generates meter reading and billing reports, receives payments, records the payments on the system, and generates a delinquent listing.

Beginning and ending meter readings did not always agree from month to month. In addition, the billing reports did not always agree to the monthly utility bills. Receipts totaling \$186 were deposited in September 1999, but not recorded on the city's utility system. The City Clerk indicated the computer had lost this information. The city's computer programmer believes these differences are caused by the city using two computers that are not networked, and not properly updating both computers.

To ensure that all payments are recorded on the utility computer system, the utility payment stubs should be periodically reconciled to the payments recorded on the computer and to deposits. To ensure reports generated are accurate, meter reading reports should be reconciled from month to month and billing reports should be reconciled to utility bills.

- D. There is no supporting documentation or independent approval of credit adjustments posted to the utility system. The City Clerk has the ability and authority to post credit adjustments to the computer system without obtaining the approval of anyone else.

To ensure that all credit adjustments are valid and properly approved, someone independent of receipting and recording functions should review all credit adjustments and proper supporting documentation should be maintained of such adjustments.

**WE RECOMMEND** the Board of Aldermen:

- A. Compare the gallons of water pumped to the gallons billed on a monthly basis and investigate significant differences.
- B. Review water and sewer rates periodically to ensure revenues are sufficient to cover all costs of providing this service.
- C. Require the City Clerk to properly update both computer systems or use one computer system exclusively for utilities. In addition, reports should be reviewed by someone independent of the utility system, and utility bill stubs should be reconciled with payments recorded on the computer system.
- D. Require someone independent of the utility system review and approve all credit adjustments and ensure adequate documentation is retained of such adjustments.

**AUDITEE'S RESPONSE:**

- A. *We are working on this.*
- B. *We reviewed the water rates in January 2000 and will review this issue further.*
- C. *We are in the process of implementing this.*

D. *We will try to do this.*

<b>6. Accounting Controls and Procedures</b>
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- A. The City Clerk also serves as the City Treasurer, and with the exception of the functions related to the collection of property taxes, this individual is responsible for most 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. Neither the board nor other personnel independent of the cash custody and record keeping functions 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.

In addition, the former City Collector also served as a member of the Board of Aldermen from July 1998 until April 1999. Having a board member serve as City Collector 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.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating duties to the extent possible. If proper segregation of duties is not feasible, the Board of Aldermen should, at a minimum, require someone having no access to cash and no record keeping responsibilities receive and review the bank statements and bank reconciliations.

- B. In addition to utility payments and property taxes, the city receives license fees, franchise fees, municipal court monies, and miscellaneous copy fees. Receipt slips are not issued for these monies, and these receipts are not recorded until a deposit is prepared. To help ensure receipts are properly recorded and deposited, prenumbered receipt slips should be issued for all monies received immediately upon receipt. The receipt slips should indicate the method of payment (ie. cash checks, or money orders) and the composition should be reconciled to the bank deposits.
- C. Checks and money orders received are not restrictively endorsed until the deposit is prepared. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- D. Deposits are not made on a timely basis. Deposits are generally made weekly; however, only one deposit was made during August 1999. In addition, the city clerk withholds cash receipts from deposits to maintain a change fund and to purchase postage. The amount withheld fluctuates during the month depending on the amount of money needed to make purchases or have on hand to make change. To adequately safeguard receipts and reduce the risk of loss or misuse of funds, all deposits should be made intact daily or when

accumulated receipts exceed \$100, a change fund should be established at a preset amount, and all disbursements for postage should be made by check.

- E. The City requires two signatures on all checks issued by the city. The Mayor, Mayor-Protem, or the City Clerk sign the checks. The dual signatures help provide assurance that checks represent payments for legitimate city expenditures. However, Mayor Bonnie Mallory, occasionally presigned blank checks which defeats the controls provided by dual signatures.

In addition, the City Clerk is the only authorized check signer who is bonded. Failure to bond all persons with access to assets exposes the city to risk of loss.

- F. Bank reconciliations are not performed monthly. During the year ending June 30, 1999 the city computerized its accounting records, but failed to record beginning balances in some funds and failed to record several transactions throughout the year. Because monthly bank reconciliations were not performed, these errors went undetected until the city's auditor brought the errors to their attention. Monthly bank reconciliations are necessary to ensure the accounting records are in agreement with the bank records and to help detect errors on a timely basis. These errors were discovered by the city's CPA during the annual audit.

**WE RECOMMEND** the Board of Aldermen:

- A. Provide for an adequate segregation of duties or independent reconciliations and reviews of the accounting records are made.
- B. Require prenumbered receipt slips to be issued for all monies received. In addition, the method of payment should be recorded on the receipt slips and the composition of receipts should be reconciled to deposits.
- C. Ensure checks and money orders are restrictively endorsed immediately upon receipt.
- D. Require that monies be deposited intact daily, establish a change fund at a constant amount and require all disbursements to be made by check.
- E. Discontinue the practice of allowing officers to sign blank checks, and obtain bond coverage for all persons with access to city assets.
- F. Ensure bank reconciliations are prepared monthly for all city accounts.

**AUDITEE'S RESPONSE:**

- A. *We are now establishing segregation among these duties.*
- B. *All monies are now recorded through our cash register.*
- C. *This recommendation has been implemented.*
- D. *Deposits are made twice a week and a change fund of \$130 has been established.*

- E. *We will take this recommendation into consideration.*
- F. *Bank reconciliations are now being performed monthly.*

<b>7. Property Tax Procedures</b>
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- A. Tax books are manually prepared by the City Collector from assessment data received from the county. No independent verification of the tax book information or totals is performed by the City Clerk. The tax book contained several mathematical errors. In addition, the City Collector makes all additions and abatements to the tax books without review or approval by the Board of Aldermen.

Section 94.290, RSMo 1994, requires the city clerk to prepare the tax books and charge the city collector with the full amount of taxes levied. Without this proper segregation of duties between the City Clerk and City Collector, the internal control over this process is weakened. Verification of tax book information and totals is necessary to ensure the amount of taxes charged to the City Collector is complete and accurate. In addition, any changes to the tax books (additions or abatements) should be prepared by the City Clerk, approved by the Board of Aldermen, and charged to the City Collector.

- B. The former City Collector did not prepare monthly or annual reports of taxes collected. The current City Collector prepares a report of taxes collected periodically to receive payment for commissions. A delinquent tax list was prepared by the current City Collector in April 1999 from the records maintained by the former City Collector; however, this list was not complete and the Board of Aldermen did not review and approve the list. In addition, some property tax payments were not recorded in the tax book and some tax receipts were not marked paid by the former City Collector.

Sections 79.310, 94.320, and 94.330, RSMo 1994, require the city collector to prepare monthly and annual reports to the board of aldermen of the amount of taxes collected and to prepare annual lists of delinquent taxes including a detailed list of persons who have not paid. The board is to examine and approve the reports and charge the City Collector to collect the amount of delinquent taxes due.

Monthly and annual reports which comply with state law would help provide assurance taxes have been properly collected, written off, or determined to be delinquent. Such a report would summarize all taxes charged to the City Collector, monthly collections, delinquent credits, abatements and additions, and protested amounts. Without such a report examined by the board, any errors or irregularities that might occur are likely to go undetected.

- C. The city does not adequately monitor or pursue collection of delinquent taxes. Delinquent taxes totaled \$3,264 and dated back to 1992. Several more tax files indicated delinquent taxes which were not included in this amount which dated back to the 1980s. Real estate taxes comprise approximately \$2,740 of the total. The city mails delinquent tax statements in November of each year; however, the city does not conduct sales of real property to collect delinquent taxes on such property, as allowed by state law.

Section 94.330, RSMo 1994, provides that the board of aldermen may declare worthless and abate any and all personal delinquent taxes which they deem uncollectible. Section 140.150, RSMo 1994, provides that all land on which there are delinquent taxes may be offered for sale at public auction, and Section 140.160, RSMo 1994, provides the sale shall not be valid unless initial proceedings are commenced within three years after the delinquency of such taxes.

- D. The City Collector does not charge the correct penalty on delinquent taxes. The City Collector currently charges a one percent penalty per month for delinquent taxes paid. Section 140.100.1, RSMo 1994, currently provides a penalty of two percent per month up to a maximum of eighteen percent per year for each delinquent tax bill.
- E. The Board of Aldermen has not held public hearings on the city's proposed property tax rates. Section 67.110, RSMo 1994, requires each governing body to hold at least one public hearing prior to approval of the proposed tax rates at which citizens may be heard. This section also provides guidance on what information is to be included at the public hearing. A similar comment was made by the city's auditor during the annual audit.

**WE RECOMMEND** the Board of Aldermen:

- A. Require the City Clerk to prepare the current tax books and charge the City Collector with the amount of taxes, or at a minimum, document procedures performed to verify the accuracy of the tax book totals. In addition, the City Clerk should prepare and the Board of Aldermen should approve all tax book additions and abatements.
- B. Require the City Collector to prepare and maintain detailed monthly and annual reports of taxes collected and delinquent taxes. In addition, the reports should be reviewed and approved by the Board of Aldermen.
- C. Adopt policies for the collection of delinquent taxes, including tax sales, and abating uncollectible personal property taxes.
- D. Ensure the penalty for the collection of delinquent property taxes is charged in accordance with state law.
- E. Hold a public hearing on proposed tax rates as required by state law.

**AUDITEE'S RESPONSE:**

- A&E. *We will consider these recommendations.*
- B. *This has been implemented.*
- C. *We will discuss this with the current City Collector.*
- D. *We will work with the City Collector to correct this for the next tax year.*

**8.**

**Budgets and Financial Reporting**

- A. The budgets prepared by the city for the years ended June 30, 2000 and 1999, did not comply with Chapter 67 of the Missouri statutes (the budget law). In addition, a budget was not prepared for the park fund. The city's budgets did not include projected ending balances, actual (or estimated for the years not yet ended) revenues and expenditures for the two preceding budget years, or a budget message.

In addition, the board does not periodically compare budgeted and actual revenues and expenditures, and as reported by the city's auditor, actual expenditures exceeded budgeted amounts during the year ended June 30, 1999.

Sections 67.010 to 67.040, RSMo 1994, set specific guidelines as to the format and approval of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations and provide a means to effectively monitor actual costs and revenues.

- B. The city did not publish a semiannual financial statement for the six months ending June 30, 1999 as required by law. In addition, the city's published semi-annual financial statements for the six months ending December 31, 1998 did not include detailed information but only presented total revenues, expenses, and beginning and ending balances for each fund.

Section 79.160, RSMo 1994, requires the Board of Aldermen to prepare and publish, semi-annually, a full and detailed account of the receipts, expenditures, and indebtedness of the city. Accurate and detailed financial statements are necessary to keep the citizens informed of the financial activity and condition of the city. In addition, Section 79.165, RSMo 1994, states the city cannot legally disburse funds until the financial statements are published.

**WE RECOMMEND** the Board of Aldermen:

- A. Prepare annual budgets in compliance with state law, and make periodic comparisons between budgeted and actual expenditures.
- B. Publish detailed semiannual financial statements as required by state law.

**AUDITEE'S RESPONSE:**

- A. *We will begin to compare budgeted expenditures to actual expenditures and will consider preparing annual budgets in compliance with state law.*
- B. *We will take this recommendation into consideration.*

<b>9. Ordinances</b>
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- A. Many of the city's ordinances are old and outdated. The city maintains an index of all ordinances passed by the city; however, several ordinance numbers are not included, three ordinances have the same number, and several ordinances are listed two to three times.

In addition, the city has not prepared ordinances to document the approved tax levy for each year. Section 94.210, RSMo 1994, states the board of aldermen shall fix the annual rate of tax levy by ordinance for each tax year.

Since the ordinances represent legislation 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. Such items as duties of city officials and the annual tax levies should be set forth in the ordinances to give the taxpayers information on how the city is to be governed.

- B. Section 79.130, RSMo 1994, requires ordinances to be approved by a majority of all the members of the board of aldermen, and the individual votes recorded . However, board minutes do not always include details of the votes taken by specific board member for proposed ordinances to ensure ordinances are properly approved.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure a complete and up-to-date set of ordinances is maintained. This would include passing new ordinances where appropriate and required.
- B. Document votes taken by specific board members on proposed ordinances in the board minutes.

**AUDITEE'S RESPONSE:**

- A. *We are in the process of updating city ordinances.*
- B. *This has been implemented.*

<b>10. Property Records</b>
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The city has not established records to account for all property owned by the city. Although the financial statements presented in the most recent CPA audit report, include approximately \$1.6 million in assets the city does not maintain their own asset records. In addition, in June 1999 the city realized it did not have insurance coverage on its water tower valued at \$150,000. Adequate general fixed asset records are necessary to provide a basis for determining proper insurance coverage required on city property, and to secure better internal control and safeguard city assets which are susceptible to loss, theft, or misuse.

The property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a detailed description of the assets including the name, make and model numbers, an asset identification number, the physical location of the assets, and the date and method of disposition of the assets when disposed of. In addition, all property items should be identified with a tag or similar device.

**WE RECOMMEND** the Board of Aldermen establish property records which include all pertinent information for each asset, such as tag number, description, cost, acquisition date,

location, and subsequent disposition. Additionally the city should properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory.

**AUDITEE'S RESPONSE:**

*We will contact our CPA and work to prepare an inventory list.*

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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