



Claire McCaskill

Missouri State Auditor

October 2006

City of Clarkton, Missouri

Year Ended June 30, 2006



Office Of
Missouri State Auditor
Claire McCaskill

October 2006

The following findings were included in our audit report on the city of Clarkton, Missouri.

Due to inadequate cash balances in some funds throughout the last several years, the city of Clarkton has at times paid bills from whichever funds had money available. The city has used restricted revenues for payment of general expenses of the city and Waterworks and Sewerage System bonds. In addition, a significant amount of money is due to the federal government for unpaid payroll taxes. Correcting these issues will further strain the various operating funds of the city. Multiple recommendations, many similar to those included in our prior report dated 1995, if corrected, would allow the board to more effectively monitor and manage the city's resources.

The city of Clarkton operates a combined waterworks and sewerage system, and bills and collects for trash service with the water and sewer. In November 2005, 22 paid utility stubs, totaling approximately \$1,162, did not trace to a daily utility receipt report or to a deposit. Detail from bank records indicated that at least 14 of these had been paid by check and were included in various deposits; however, it appears these checks were substituted and deposited for other accounts paid by cash. Due to 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 does not have internal controls to ensure monies collected are properly deposited, and does not maintain adequate records of the total utilities billed each month.

The City Clerk indicated that after taking office in February 2005, she found \$3,511 in cash in city hall. This money was kept segregated in the change drawer. Throughout the year it was used to make deposits into various city accounts that needed funds. In May 2006, the remaining \$1,035 was divided equally and deposited into the Sewage Tax, Water Bond Sinking Fund, and Treasurer accounts. The city did not perform an investigation to determine where the money came from and into what account it should have been deposited.

The City Clerk also serves as city treasurer, which does not allow the segregation of duties necessary and is contrary to an Attorney General's opinion. Receipts are not deposited intact. The City Clerk prepares a deposit log from her various receipt records indicating how much is to be deposited to the various bank accounts, and then divides the cash and checks received to equal these deposit amounts. As a result, checks intended for one account are often deposited into other accounts to ensure deposits to the various funds agree to the daily total sheets.

The City Clerk maintains accounting records on a software program and prepares a monthly bank reconciliation; however; she does not investigate any differences between

YELLOW SHEET

the reconciled bank balance and her account ledger and instead makes a balance adjustment for any differences noted. During the year ended June 30, 2006, the City Clerk made balance adjustments totaling approximately \$3,520. Also, as of June 2006, the city maintained 18 bank accounts, several of which charged a service fee when balances were below a specified amount.

The city entered into financing agreements for various assets, totaling approximately \$65,300, which had no cancellation clauses. The city had no documentation on how those agreements complied with the Missouri Constitution.

The city does not have a formal written bidding policy. The city has an informal policy to solicit bids or proposals for all items over \$150. While the City Clerk indicated she frequently obtains proposals or quotes over the telephone, documentation of these proposals is not maintained.

Although there is an occasional reference to a specific invoice being approved for payment, the board minutes usually only make a general reference that the monthly financial statement was approved. A signature indicating receipt of goods or services was not evident on expenditure documentation, and numerous past due payments were processed without a vendor invoice or other adequate supporting documentation including the purpose of the disbursement.

The city does not adequately monitor the solid waste collection services contract and invoices to ensure compliance with the contract. During the year ended June 30, 2006, the City Clerk sometimes sent in additional payments or paid more than collected in order to pay off past due amounts; invoices were not adequately reviewed to ensure all payments and credits were properly applied.

There are several concerns regarding the city's combined waterworks and sewerage system, including:

- The city has not had annual audits of its water and sewer system as required.
- Appropriate accounts required by bond covenants have not been established.
- The city has not prepared annual budgets for the estimated receipts and expenditures of the system.
- City ordinances indicate that the rates for water and sewer are to be reviewed each year; however, a formal review has not been performed since 2000.
- The city has not established or complied with some ordinances, including partial payments and water tap and sewer tap charges.

Also included in the report are recommendations related to contracts for legal and accounting services, restricted revenues, budgets and financial reporting, payroll and personnel matters, minutes, meetings, and ordinances, property tax procedures, fixed assets, street maintenance, volunteer fire department and the municipal court.

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CITY OF CLARKTON, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and Board of Aldermen
City of Clarkton, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Clarkton, Missouri. The scope of our audit of the city included, but was not necessarily limited to, the year ended June 30, 2006. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; analyzed comparative data obtained from internal sources; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the

provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

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



Claire McCaskill
State Auditor

July 3, 2006 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Debra S. Lewis, CPA
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF CLARKTON
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Financial Oversight and Monitoring

Inadequate oversight and monitoring by the Board of Aldermen, inadequate records and procedures, accounting errors, and improper uses of restricted monies have all contributed to a serious financial situation for the city. The city's General Fund had a fund balance of \$8,466 at June 30, 2006.

Due to inadequate cash balances in some funds throughout the last several years, the city has at times paid bills from whichever funds had money available. As noted in MAR 6, the city has used restricted motor fuel and street sales tax monies and other restricted revenues for payment of general expenses of the city and Waterworks and Sewerage System bonds. The city entered into financing agreements in 2002 and 2003 for vehicles and equipment, as noted in MAR 4. In addition, a significant amount of money is due to the federal government for unpaid payroll taxes, as noted in MAR 9. Correcting these issues will further strain the various operating funds of the city.

There are several recommendations, including inadequate records and procedures, that were similarly noted in our prior report dated 1995, that if had been corrected would have allowed the board to more effectively monitor and manage the city's resources. In addition, had these recommendations been implemented the problems noted above and throughout this report may not have occurred. These weaknesses included the absence of budgets and other financial reports as noted in MAR 10, numerous errors and inadequate detail in accounting records as noted in MARs 2 and 3, the lack of supporting documentation for numerous disbursements as noted in MAR 4, and inadequate segregation of accounting duties or review of work performed, noted in MAR 3.

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. 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 an effective financial reporting system and 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. The weaknesses noted throughout our report must be corrected to achieve the required level of accountability, to more effectively use the city's resources, and to reestablish the public's confidence in its city government.

WE RECOMMEND the Board of Alderman 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 Mayor, Board of Aldermen, and City Clerk provided the following reponse:

We have been working on implementing this recommendation. The City's financial condition has been improving and with the extra help hired, financial records have improved as well.

2. Utility Receipts

Some utility monies received were not deposited into the city's accounts. In addition, when the City Clerk discovered undeposited receipts from prior periods, the city did not perform an investigation or deposit the receipts in a timely manner.

The city of Clarkton operates a combined waterworks and sewerage system. In addition, the city bills and collects for trash service with the water and sewer. The City Clerk accepts cash, checks, and money orders for payment of these combined utilities. For the year ended June 30, 2006, the city deposited approximately \$119,200 for water services, \$114,700 for sewer services; and \$38,300 for trash services. On average the city billed 526 accounts for water service, 450 for sewer services, and 452 for trash services each month.

When utility payments are received, the date paid and the amount is recorded on the utility stub. The utility stubs are posted to control cards maintained for each account. The City Clerk also prepares a daily utility receipt report, from the paid utility stubs, that lists each utility payment included in the deposit.

A. During the period November 4 through November 10, 2005, 22 utility stubs totaling approximately \$1,162, stamped as received during this period, did not trace to a daily utility receipt report. Detail from bank records indicated that at least 14 of these had been paid by check and were included in various deposits. However, as the daily utility receipt reports total agreed to the total deposited, it appears these checks were substituted and deposited for other accounts paid by cash. Due to control weaknesses and inadequate record keeping the city has no assurance that undeposited receipts were spent on city business and were not misappropriated.

Because the city's utility records were not complete and accurate, as discussed in parts B-D, detailed reviews could not be performed. The city does not maintain records of total amounts billed or have an adequate method of determining the

total billed each month. The City Clerk's assistant tallies the total number of accounts billed for water, sewer, and trash for each month. To determine the approximate amount billed for the year ended June 30, 2006, the number of accounts billed was multiplied by the rates for water, sewer, and trash for that month. For 2006, it appears approximately \$284,200 was billed (less any delinquent amounts) and \$272,200 was deposited. Based on these estimates, approximately \$12,000 in receipts may not have been accounted for properly.

To adequately safeguard against loss and misuse of city funds a system of internal controls as discussed throughout this report should be established and followed. The following control weaknesses were noted which may have contributed to this situation.

- B. The city does not have internal controls to ensure monies collected are properly deposited. Deposits are not made intact or adequately reconciled to utility stubs (which serve as receipt slips). As discussed above, the City Clerk prepares deposits based on her daily utility receipt report and deposits the utility monies collected into three city accounts. Some checks received were shown on a daily utility report for one deposit, but were actually deposited on a different day, according to the bank's deposit records. Also, as noted in part A above, some utility stubs stamped paid were not included on the daily utility receipt reports.

In addition, the clerk does not document the method of payment and therefore can not reconcile the composition of the receipts to the deposit. Such a reconciliation would help detect receipts not being deposited.

A reconciliation between the daily utility receipt report and the paid utility stubs ensures that receipts are accounted for properly and deposited intact. In addition, the method of payment should be documented on the paid utility stubs and the daily utility receipt report and reconciled to the composition of deposits to ensure all monies are properly deposited.

- C. The city does not maintain adequate records of the total utilities billed each month. The City Clerk indicated that to determine the total amount billed, the control cards, which reflect the amount billed for that account, would have to be totaled. However, many of the cards indicated that the individual was billed for all three services, but when payment was made only one or two of the services were charged. In addition, the City Clerk was unable to locate several of the control cards.

As a result, month-end utility accounts receivable balances are not reconciled to the beginning account receivable balance, billings, collections, and other adjustments for the month. A reconciliation of these amounts should be performed every month to ensure all amounts have been accounted for properly.

A similar condition was noted in a prior report.

- D. The City Clerk indicated that after taking office in February 2005, she found \$3,511 in cash in city hall. Instead of depositing this money immediately it was kept segregated in the change drawer until it was deposited. In February 2005, \$600 was deposited into the Motor Fuel and Street Fund and \$300 was deposited in the Water Bond Sinking Fund, and in November 2005, January 2006 and April 2006, \$796, \$400 and \$380, respectively, was deposited in the Fire Department Account. The City Clerk indicated that these deposits were made to the account that needed funds. In May 2006, the remaining \$1,035 was divided equally and deposited into the Sewage Tax, Water Bond Sinking Fund, and Treasurer accounts.

This money should have been deposited immediately for safekeeping. In addition, the city did not perform an investigation to determine where the money came from and into what account it should have been deposited. In April 2005, the city reported a suspected fraud to the Sheriff of Dunklin County, based on finding these undeposited receipts and allegations from a former employee. While an investigation has not formally been performed, the city should continue to work with law enforcement officials regarding any criminal prosecution and to obtain restitution of any misappropriated funds.

WE RECOMMEND the Board of Aldermen:

- A&D. 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.
- B. Reconcile the daily utility receipt reports to the paid utility stubs and to deposits. In addition, document the method of payment of the receipts and reconcile the composition of the deposits to the receipts.
- C. Require records of the total amounts billed each month be maintained. In addition, ensure beginning and ending accounts receivable balances are reconciled on a monthly basis using the billings, collections, and billing adjustments during that month. Any differences which cannot be accounted for should be investigated.

AUDITEE'S RESPONSE

The Mayor, Board of Aldermen, and City Clerk indicated:

A&D. The City will further investigate the misappropriated funds and have now developed procedures to ensure all monies received are deposited. In addition, the City Clerk did bring the found money to the board's attention in February 2005 and contacted the City Attorney but never received a response as to what should be done with the money.

- B. *This recommendation has been implemented.*
- C. *The City Clerk's office is developing an Excel spreadsheet to implement this recommendation.*

3. Accounting Controls and Procedures

City procedures related to accounting duties, processing of monies, and bank reconciliations are in need of improvement. The City Clerk serves as the city treasurer which decreases internal control and is contrary to an Attorney General opinion. Monies received are not deposited intact, the change fund is not kept at a constant amount, and checks are not issued in sequential order. In addition, the city maintains two sets of accounting records that do not reconcile and an excessive number of bank accounts with bank fees being assessed. Also, former officials are still authorized to sign checks on some of the city's bank accounts.

- A. The City Clerk also serves as city treasurer. 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. Holding any two of these three offices does not allow the segregation of duties necessary for a proper evaluation and review of financial transactions. While the city's accounting firm prepares bank reconciliations and general journal entries, the City Clerk does not review the general journal entries or reconciliations. The City Clerk does have an assistant, but her duties are mainly preparing the utility bills, documenting receipt of the bills on the control cards, filing, and accepting payments. The current procedures jeopardize the system of independent checks and balances intended by state law. If segregating these offices is not possible, at a minimum, procedures for adequate independent review should be established, which include documenting when and what work was reviewed.

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 could be improved by segregating duties to the extent possible. In addition, the board should require someone independent of the cash custody and record keeping functions to perform periodic reconciliations of receipts to deposits and compare supporting documentation to checks issued.

- B. Receipts are not deposited intact. For example, the City Clerk sometimes accepts third-party checks for utility payments and refunds the excess in cash. While the City Clerk indicates the method of payment on receipt slips issued (receipt slips are not utilized for utility payments), no reconciliation is performed between the composition of the receipts slips issued and deposits. In addition, the City Clerk prepares a deposit log from her various receipt records indicating how much is to

be deposited to the various bank accounts, and then divides the cash and checks received to equal these deposit amounts. As a result, checks intended for one account are often deposited into other accounts to ensure deposits to the various funds agree to the daily total sheets.

To adequately safeguard receipts and reduce the risk of loss, or misuse of funds, third-party checks should not be accepted, and the composition of receipts per the receipt slips should be reconciled to the amount deposited. In addition, the city should consider reducing the number of bank accounts maintained, see part E below.

- C. The City Clerk indicated the city maintains a change fund of \$150; however; on April 24, 2006, approximately \$160 in unidentified cash was on hand, in addition to the change fund. Change funds should be maintained at a constant amount to ensure funds are being accounted for properly, to detect any errors, and to help prevent these monies from being misused.
- D. The city maintains two sets of accounting records that do not reconcile. The City Clerk maintains accounting records on a software program and prepares a monthly bank reconciliation; however; she does not investigate any differences between the reconciled bank balance and her account ledger, instead she makes a balance adjustment for any differences noted. During the year ended June 30, 2006, the City Clerk made balance adjustments totaling approximately \$3,520.

In addition, the city's accounting firm maintains a general ledger for the city and prepares monthly bank reconciliations. The City Clerk prepares a deposit spreadsheet, which shows the deposits into each account and the purpose for the deposit, i.e. water bill receipts, tax bill receipts, etc. This spreadsheet along with check stubs, deposit slips, and bank statements, are given to the accounting firm to prepare the general ledger, bank reconciliations, and payroll withholdings; however, these deposit spreadsheets were not always complete and accurate. As a result, the accounting firm's general ledger ending balance does not agree with the City Clerk's records. The accounting firm compares the deposit spreadsheet to the bank statements and makes adjustments for any additional deposits noted on the bank statements, by contacting the City Clerk for the proper account code. For example, for the November 2005 deposits, an adjustment was made for \$6,118 to "miscellaneous/donations" of which \$6,006 was actually tax receipts; and adjustment for \$1,102 to "dig hole", of which \$1,000 was actually a transfer of funds from one account to another (see also part MAR 6).

To ensure receipts and disbursements are properly recorded, the City Clerk and the accounting firm should ensure that their records reconcile. In addition, since the accounting firm's general ledger is used to prepare the budget and financial statements, the information provided to the accountant should be complete and accurate. Also, the City Clerk should investigate all differences noted on her

bank reconciliations and make the appropriate corrections, rather than simply adjusting the balance.

- E. As of June 2006, the city maintained 18 bank accounts. The City Clerk could not identify the purpose of some of these accounts. Several of the city's bank accounts are charged a service fee when balances are below a specified amount. As of June 30, 2006 there were five accounts with bank balances below the minimum requirements and were thus being charged a service fee each month:

Account Name	Bank Balance June 30, 2006
Bond Reserve	\$ 1,486
Utility	781
Fire Department	16
Water Works and Sewage	236
Merchants Bond	88

These service fees far outweigh the interest received on the account. In addition, the current signature cards for five of these accounts have only the former City Clerk, the former Mayor and a former alderman listed as the authorized signers.

A large number of bank accounts requires additional record keeping and increases the likelihood that errors will occur in handling of funds. To reduce the risk of loss or theft, the city should update the bank signature cards immediately upon a change in officials and ensure checks are signed only by authorized signatories.

- F. The Alderwoman and the Mayor who are authorized to sign checks are not bonded. Failure to properly bond all persons with access to assets exposes the city to risk of loss.

Conditions similar to parts A-C were noted in a prior report.

WE RECOMMEND the Board of Aldermen:

- A. Ensure the duties of the City Clerk and City Treasurer are properly segregated, or ensure that an adequate review of the City Clerk/Treasurer's activities is performed. There should be a documented independent comparison of receipts to amounts deposited.
- B. Ensure monies are deposited intact and detailed receipt records are reconciled to bank deposits.
- C. Ensure that all receipts are deposited and ensure the change fund is kept at a constant amount.

- D. Ensure that the records maintained by the City Clerk are reconciled to the records maintained by the accounting firm and that reports provided to the accounting firm are complete and accurate. In addition, ensure all adjustments made by the accounting firm are reviewed and approved by the city.
- E.. Review the bank accounts and determine if some can be consolidated or closed to avoid service charges. In addition, update the bank signature cards immediately and ensure checks are signed by only authorized signatories.
- F. Ensure all employees with access to city assets are bonded.

AUDITEE'S RESPONSE

The Mayor, Board of Aldermen, and City Clerk indicated:

- A. *This recommendation has been implemented. An Alderwoman has been reviewing these records.*
- B. *The City will continue to accept checks and give change back on checks because this is a service the city wants to provide, however they will develop written procedures to ensure this is adequately documented in the future. The City has started documenting the amount received and the change given back to the citizen and will begin having the citizen sign the utility stub to indicate they received the cash.*
- C, D, E&F. *These recommendations have been implemented.*

4.	Expenditures
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The city entered into financing agreements without a cancellation clause. In addition, the city does not have policies addressing, bids, vehicle usage and maintenance logs, or disbursement procedures. Also, a written contract was not obtained for the City Attorney or accounting services, and the city paid the City Clerk’s husband for services without documenting any bids.

- A. The city entered into financing agreements for the purchase of 2 vehicles for the sewer/street and water departments in September 2003, 1 vehicle for the police department in May 2002, and 3 pieces of equipment for the sewer/street and water departments in April 2003, totaling approximately \$65,300. The purchase of the vehicles and equipment were financed for a term of five years for the vehicles and three years for the equipment. The agreement for the equipment was paid off in April 2006. These finance agreements did not contain any type of cancellation clause, nor did they indicate they were subject to appropriation each year. The city was unable to provide documentation showing how these financing agreements complied with the state constitution.

Financing contracts, absent a cancellation clause, obligate the city for future periods. This appears to violate the intent of the Missouri Constitution on legal indebtedness absent a vote of city taxpayers. 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.

- B. Vehicle usage and maintenance logs were not maintained. In May 2006, the Chief of Police began requiring usage logs to be maintained for police vehicles; however, he does not compare the usage logs to the vendor billings for fuel purchases (see also part E). In addition, logs are not maintained for other city vehicles. During the year ended June 30, 2006, the city purchased fuel totaling approximately \$11,500, according to the City Clerk's records.

In December 2005, the city purchased 643 gallons of fuel for the police department. The current Chief of Police indicated this appeared excessive since they currently only consume approximately 10 gallons of fuel a day. He further indicated that during this time, the police department did not have any operating police vehicles, thus the police officers used their personal vehicles to patrol and used the city's fuel account to fill their vehicles. The City Clerk indicated the city covers less than two square miles, and employed only three officers during this time period. Comparing the usage log to the fuel purchased would ensure any problems such as this are quickly identified and resolved. In addition, the City should establish procedures regarding the use of personal vehicles for city business (see also part C).

Usage and maintenance logs are necessary to document appropriate use of the vehicles and to support fuel charges. The usage and maintenance 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 vehicles and equipment are used only for city business, and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to fuel purchases and other maintenance invoices.

- C. The city does not have a formal written bidding policy. The city has an informal policy to solicit bids or proposals for all items over \$150. While the City Clerk indicated she frequently obtains proposals or quotes over the telephone, documentation of these proposals is not maintained. During the year ended June 30, 2006, the following purchases could have been bid: \$1,267 for an engine rebuilt for a police vehicle, \$1,182 for street repairs, \$2,500 for materials for street repairs, and \$5,328 for insurance.

Formal bidding procedures provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal 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.

- D. Although there is an occasional reference to a specific invoice being approved for payment, the board minutes usually only make a general reference that the monthly financial statement was approved. A financial report, summarizing disbursements by account, is prepared monthly by the City Clerk for the preceding month's activities; however, this report is not seen and approved by the board prior to the disbursements being made, and is not included with the official minutes of the board's meetings.

The disbursements and supporting documentation should be presented to the board in a timely manner. Also, 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 members to denote their approval, and retained with the official minutes.

- E. A signature indicating receipt of goods or services was not evident on expenditure documentation. As noted in part B, the fuel purchases for the month of December appeared excessive for the police department; however the Chief of Police indicated that he does not review the invoices for accuracy. Evidence of receipt of goods should be noted prior to payment. Failure to properly review all invoices and supporting documentation, and to document authorization, increases the possibility of inappropriate disbursements occurring.
- F. Numerous past due payments were processed without a vendor invoice or other adequate supporting documentation including the purpose of the disbursement. The current City Clerk indicated that when she took office, she was contacted by several companies indicating that payment had not been received for some invoices; however, she could not locate the vendor invoices for these bills and had to make payment based on the past due notices.

Vendor invoices or other supporting documentation are necessary to ensure disbursements are for legitimate purposes. When the vendor invoices can not be located, the City Clerk should request copies of the invoices from the vendors, rather paying them from the past due notices.

- G. The compensation of the city attorney/prosecutor is not clearly defined by ordinance or contract. The city paid the former city attorney \$500 per month prior to combining the offices of the city attorney and city prosecutor in

December 2005, and \$600 per month after the offices were combined. City ordinance defines the city attorney's duties to include defending or prosecuting all actions in which the city's interest are involved, generally performing all legal services on behalf of the city, drafting new ordinances, attending Board of Aldermen meetings, drafting or examining contracts, leases or agreements entered into by the city, and giving his opinion in matters of law. The ordinance also indicates that in matters of importance affecting the welfare of the city requiring particular attention and legal services, the city attorney shall be compensated an additional reasonable amount for such services. The city prosecutor's duties, as defined by ordinance, include prosecuting all misdemeanors, infractions, and ordinance violations in the municipal court. The ordinance also indicates that in those instances involving trial of misdemeanors, infractions, or ordinance violation, at another location the city prosecutor shall be allowed additional reasonable compensation for his time and services.

During the year ended June 30, 2006, the city paid the former city attorney \$2,950 for reviewing the contract for installation of water meters, meeting with engineers regarding contract requirements, reviewing EPA findings, and negotiating a waiver of monetary penalties from the EPA, in addition to his monthly salary. The city also paid the city attorney/city prosecutor \$695 to obtain a court order to have individuals placed on the April 2006 election ballot in addition to his monthly salary. It is unclear whether or not these services should have been included in the normal duties covered under the monthly salary. The ordinance does not indicate the hourly compensation to be paid for the additional services, nor has the city entered into a written contract for these services. In addition, the invoices from the city attorney do not provide information such as the date of when services were provided, and the invoice from the city attorney/prosecutor does not indicate the rate and hours billed.

Also, the city does not have a written contract for accounting services indicating the services to be provided at what amount. The city hired an accounting firm to prepare some of the city's financial records. In February 2006, the city paid the accountant approximately \$1,800 for preparing the 2005 W-2's and 1099's, the July 2005 through December 2005 financials, and preparing the fiscal year 2006 budget.

Section 432.070, RSMo, requires contracts of political subdivisions be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties. In addition, the city should review their ordinance to ensure it clearly defines what duties will be provided under the monthly fee, and which will be compensated at an hourly rate.

- H. The city does not adequately monitor the solid waste collection services contract and invoices to ensure compliance with the contract. The city has a contract for solid waste collection services which provides services for most residents within the city limits. The city bills and collects the fees established by the contract from participating citizens and small businesses, and pays the total collected, less \$1 administration fee per participant, to the contractor. The contractor bills the city for the solid waste collection services. According to the city officials and the contractor, the city is to receive a credit on their bill for any fees not collected.

The City Clerk prepares a statement indicating the amount collected by the city and the amount that should be credited to the city's account, that she sends in to the contractor with her monthly payment. During the year ended June 30, 2006, the City Clerk sometimes sent in additional payments or paid more than collected in order to pay off past due amounts; however, she does not adequately review future invoices to ensure all payments and credits have been properly applied. At one point during the audit period, the city had an unpaid balance of \$22,040 for these services. Based on the City Clerk's monthly statements of collections, it appears that all credits may not have been applied to the city's account:

	Amount Collected (a)	Amount Billed (b)	Credits Applied (c)	Amount Paid (d)	Total Due (e) (e+b-c-d)
					9,840
January 2005	\$ 2,792	3,280		2,987	10,133
February	2,822	3,280		2,860	10,553
March	2,901	3,280	713		13,120
April	2,846	3,280		2,873	13,527
May	2,920	3,615	407		16,735
June	2,517	3,280			20,015
July	2,815	3,280		2,775	20,520
August	2,654	3,360		2,800	21,080
September	2,587	3,360		2,400	22,040
October	2,780	3,360		3,450	21,950
November	2,609	3,360		5,000	20,310
December	2,875	3,360		5,602	18,068
January 2006	2,851	2,937	3,770	4,943	12,292
February	2,636	2,936		4,943	10,285
March	3,178	2,936		4,876	8,345
April	2,412	2,937		2,937	8,345
May	2,775	3,762		4,937	7,170
June	3,152	2,099	48	3,448	5,773
Total	\$ 50,122	57,702	4,938	56,831	5,773

Note: Column A is presented for comparison purposes only.

While the contract indicates the cost per unit, it does not clearly stipulate that only the fees collected by the city are to be paid to the contractor with any uncollected fees being credited to the city's account. If the city had been paying regularly and receiving the proper credit for amounts not collected, an unpaid balance should not have occurred. The City Clerk indicated the city was behind on payments to this contract due to the poor financial condition of the city.

The contract should clearly establish payment terms, clarify responsibilities and expectations of both parties, to ensure the city receives the services it desires. In addition, the City Clerk should maintain records of amounts billed per the invoice by the contractor, amounts collected by the city for the services, and the amounts that should be credited, and utilize these records to monitor each billing statement to ensure it properly reflects the city's payments and credits. Without these records, the City Clerk can not determine if the balance due per the vendor is proper.

- I. The City Clerk's husband performed automotive repair services, totaling approximately \$1,220 in fiscal year 2006, of which one transaction was \$684. The city could not provide documentation to show compliance with Section 105.454 RSMo, which prohibits an employee or their spouse from performing services which result in more than \$500 per transaction or \$1,500 per year before August 28, 2005 and \$5,000 per year after that date.

To reduce the appearance of conflict of interest and to ensure full compliance with state law, the city should bid all services provided by city officials and employees, particularly where it is possible the payments may exceed \$500 per transaction or \$5,000 per year. The Board should also consider establishing an ordinance which addresses these types of situations and provides a code of conduct for city officials.

Conditions similar to parts D and E were noted in a prior report.

WE RECOMMEND the Board of Aldermen:

- A. Not incur debt in violation of the constitution.
- B. Establish procedures for maintaining accurate and complete usage logs for all city owned vehicles and reconcile these logs to fuel purchased.
- C. Establish formal bidding policies with provisions for documentation of the justification for selecting and rejecting bids.
- D. Approve all expenditures prior to the disbursements.
- E. The city clerk ensure evidence of receipt for the goods or services is noted on the invoice prior to payment.

- F. Ensure that invoices or other supporting documentation are maintained to support all city expenditures.
- G. Enter into written agreements for all services. In addition, ensure all invoices include adequate documentation to include the date service was provided and the rate charged.
- H. Ensure that all contracts properly stipulate the payment terms, and properly monitor all invoices to ensure all payments and credits are properly reflected.
- I. More closely examine future city transactions to identify and avoid apparent and actual conflicts of interests and carefully review all transactions with city officials and establish procedures to ensure all services obtained from city officials are properly bid in accordance with state law.

AUDITEE'S RESPONSE

The Mayor, Board of Aldermen, and City Clerk indicated:

A&F. These recommendations will be implemented.

B&C. These recommendations have been implemented.

D. This recommendation will be implemented. Prior to this current administration taking office, the City had credit problems. Therefore, bills had to be paid when they were received and the board could not review the invoices prior to disbursement. The current administration is working towards gaining the trust of their vendors again and will develop a policy on what bills may be paid without board approval.

E. This recommendation has been implemented. Department heads are now signing invoices as well as the Mayor, an Alderman and the City Clerk.

G. The current City Attorney is only paid a monthly salary of \$600, which has been established by city ordinance. The city will enter into a contract with the accountant.

H. The City intends to obtain bids for the waste collection services after the contract ends at the end of the year. The new contract will include stipulations for payment terms.

I. This recommendation will be implemented. In addition, the City Clerk's husband no longer does work for the city.

5.	Waterworks and Sewerage System
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The city operates a combined waterworks and sewerage system. The city is not compliant with some requirements for the waterworks and sewerage system bond

covenants. In addition, the city accepts partial payments for utilities, and has not adopted an ordinance establishing the rates for sewer and water taps and street repairs.

A. The city issued revenue bonds in 1995 and in 2000 for their combined waterworks and sewerage system. The revenue bond covenant requires the city to establish several separate bank accounts and to fund these bank accounts with transfers from combined waterworks and sewerage system operating revenues. The bond covenant requires the city:

- To establish a Revenue Account for the deposit of the receipts of the combined waterworks and sewerage system. The city currently has two accounts: the Water Bond Sinking Fund Account, and the Sewerage Tax Account. These accounts are used to deposit the monies collected for the water and sewer, and to pay most of the operating expenses of the system.
- To establish a Debt Service Account and transfer monthly, from the revenue account, an amount sufficient to pay the interest and principal of the 2000 series bond on the bond payment date. The city currently does not utilize such an account. For the semiannual bond payment made in June 2005, the city transferred money from several city accounts to make the payment, due to a lack of funds in the various water and sewer accounts (see also MAR 6). In June 2006, the payment to the bond company was \$15,057 and was paid from the Water Bond Sinking Fund Account, the Sewerage Tax Fund Account, and the Water Reserve Bond Account.
- To transfer monthly, from the revenue account, \$300 for the 2000 Series bonds and 1/12 of \$2,500 or \$208 for the 1995 Series bonds into a Depreciation and Replacement account. The City Clerk currently deposits \$350 a month into their DED Water IMPS (Depreciated Water Improvements) Account instead of \$508 as required. The city opened this account on June 30, 2005, deposited \$1,001, and began making monthly deposits starting in August. However, the city did not make the November monthly deposit, due to the lack of available funding. As of June 30, 2006, this account had a balance of \$4,501. If the required payments had been made on a monthly basis since the start of the bond agreements there should be \$49,100 in the account, assuming no expenses for improvements to the waterworks and sewerage system were made.
- If there is a remaining balance in the revenue account after all of the required transfers, then it is to be transferred into a Surplus Account. The city has not established a surplus account.

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

- B. The city has not had annual audits of its water and sewer system as required. The bond covenant and Section 250.150, RSMo, requires the city to obtain annual audits of the water and sewer system.

In addition to being required by state law and the city's bond covenants, annual audits of city funds would help ensure city financial transactions have been properly recorded.

- C. The city has not prepared annual budgets for the estimated receipts and expenditures of the system. In February 2006, the Board approved a city-wide budget for the year ended June 30, 2006, which included the water and sewer funds (see MAR 10). The 1995 bond agreement requires a budget be prepared prior to the commencement of the fiscal year for the combined waterworks and sewerage system. A complete and well-planned budget can serve as a useful management tool by establishing specific cost and revenue expectations.

In addition, the 2000 bond covenant requires rates and charges be sufficient to enable the city to have in each fiscal year net revenues of not less than 120% of the debt service requirements for such fiscal year. The budget can also be used to establish the rates to be charged for the ensuing year to ensure compliance with the bond requirement.

- D. City ordinances indicate that the rates for water and sewer are to be reviewed each year; however, a formal review has not been performed since 2000. In June 2005, the city's bond agent performed a review and recommended the rates be increased to ensure compliance with the bond provisions; however, the City Clerk, indicated the city did not receive a written report to substantiate the rate increase. The Board of Alderman passed a motion, in June 2005, to increase rates for water from \$9.50 to \$23 and for sewer from \$9 to \$23, as recommended by their bond agent. In November 2005, the board passed a motion to decrease rates for water and sewer to \$19 each, due to citizen complaints. Section 67.042, RSMo, provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of each service. The city should perform and document periodic reviews of the costs to maintain the utility services and establish rates to ensure the costs of operation, maintenance, and replacement of the city's water and sewer system are covered.

- E. The city allows some citizens to make partial payments for utility bills, with the approval of two aldermen and the mayor; however, their approval is not documented. City ordinance indicates that partial payments are not to be accepted under any circumstances. To ensure compliance with the ordinances, the city should discontinue accepting partial payments for utility bills.

- F. The June 2005 minutes indicate the board passed a motion to increase the water tap charge from \$75 to \$150 and the sewer tap charge from \$75 to \$150, as recommended by their bond company; however, the board never adopted an

ordinance to establish these fees. The city's policies, procedures, and practices should be set forth in the ordinances to give the taxpayers information on how the city is to be governed.

WE RECOMMEND the Board of Aldermen:

- A. Ensure compliance with applicable bond covenants.
- B. Obtain annual audits of the city, as required by state law and bond covenants.
- C. Prepare and approve an annual budget on a timely basis as required.
- D. Perform and document periodic reviews of the costs to maintain utility services, and establish rates to ensure the costs of operation, maintenance, and replacement of the city's water and sewer system are covered.
- E. Ensure partial payments are not accepted for utility bills.
- F. Adopt an ordinance establishing the charge for the water taps and sewer taps.

AUDITEE'S RESPONSE

The Mayor, Board of Alderman, and City Clerk indicated:

- A. *This recommendation has been implemented.*
- B. *The City is currently trying to obtain an audit; however, we have had some difficulty getting a firm to perform an audit.*
- C. *This recommendation will be implemented. The Board of Aldermen approved the 2007 fiscal year budget in June 2006.*
- D&F. *These recommendations will be implemented. The City Attorney is currently developing an ordinance for the water and sewer rates as well as for the charge for water taps and sewer taps.*
- E. *The City intends to continue accepting partial payments and therefore will amend the ordinance.*

6.

Restricted Revenues

The city has not established a separate accounting for motor vehicle-related revenues, Law Enforcement Training fees, and Municipal Court Employee Training fees. In addition, some restricted revenues were inappropriately used for general city expenses.

- A. The city has not established a separate accounting for the motor vehicle related revenues, Law Enforcement Training (LET) fees, or Municipal Court Employee Training (MCET) fees. The city deposits all motor vehicle-related revenues along with all court costs, including those assessed for Law Enforcement Training and Municipal Court Employee Training, into the Motor Fuel and Street Fund account. The City Clerk uses this account to pay for police and fire department expenses, as well as some general city expenses. City records are not maintained in a manner to clearly indicate these restricted funds were utilized as required.

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; Section 590.140, RSMo, requires law enforcement training fees to be used only for the training of law enforcement officers; and Section 479.260, RSMo, requires municipal court employee training fees to be used for the continuing education and certification required of the municipal judges, and for judicial education and training for court administrators and clerks. The city should determine the amount received for motor vehicle related revenues, law enforcement training fees, and municipal court employee education and training and transfer the fees to a separate fund or maintain a separate accounting of the funds to ensure the fees are used in accordance with state law.

- B. The city used restricted funds, motor fuel and street revenues, LET, MCET, and utility receipts, to pay for general city expenses. General city expenses such as insurance, payroll taxes, fees for the preparation of the W2's and financial statements, salaries for the various officials, payroll tax withholdings, and bond payments were paid from various accounts. The City Clerk indicated that due to a lack of funds, she paid bills from whichever account had funds available.

Allocation of expenses is necessary for the city to ensure the water and sewer rates are sufficient to cover the cost of providing the service without generating profits to subsidize other city services. Furthermore, the use 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.

- C. The City Clerk does not maintain proper documentation to support transfers between funds. As noted in part B, the city used restricted monies to pay for general expenses. There was no documentation of board approval. In some instances, the City Clerk would note a transfer from one account to another as "reimbursement"; however the City Clerk could not provide documentation to show how much was originally borrowed or what was being reimbursed. In fiscal year 2006, approximately \$20,588 was transferred between funds.

To ensure that revenues are used for their intended purposes, proper documentation to support transfers should be maintained and any transfers from

restricted funds, which are to be used for general purposes, be board approved and reimbursed within a reasonable time period.

WE RECOMMEND the Board of Aldermen:

- A. Establish the necessary records to account for those monies restricted for specific purposes and allocate expenditures to the appropriate funds.
- B. Ensure restricted funds are used only for their intended purposes.
- C. Maintain proper documentation for the support of transfers, which includes the account, date, amount transferred, the account the funds were transferred to, and the reason for the transfer. If money was borrowed from restricted funds, ensure board approval and reimbursement to the restricted fund within a reasonable period.

AUDITEE'S RESPONSE

The Mayor, Board of Aldermen, and City Clerk indicated:

- A. *The City has developed a spreadsheet to track the receipts and disbursements of each restricted fund.*
- B&C. *These recommendations will be implemented.*

7. Meetings, Minutes, and Ordinances

Numerous problems were noted with the city procedures for conducting and documenting board meetings, establishing and maintaining ordinance records, and providing public access to records.

- A. Board minutes are not consistently signed by the City Clerk and Mayor. The board minutes should be consistently signed by the city clerk as the preparer, and the mayor or a designated member of the board, to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.
- B. The board conducted several closed meetings during the last year; however, they did not document how some items discussed in closed session complied with state law. Closed session meetings included discussions on the removal of red lights from vehicles and the police chief's salary. In addition, some decisions made and/or votes taken in closed session were not subsequently disclosed in open session as required. The decision to hire employees, to give pay increases for some employees, and to accept employee resignations were not disclosed in open session as required.

Section 610.021, allows matters to be discussed in closed session only if they relate to certain specified subjects. Discussions in closed meetings should relate to the specific topics used to justify the meeting closure. In addition, the law requires certain votes taken in closed session to be disclosed in open session.

- C. An index of all ordinances passed and rescinded by the city is not maintained which makes it difficult for the city to determine which ordinances are still active and which have been rescinded. The ordinance book is in sequential order by ordinance number, including those that have been rescinded. In addition, the city has not adopted ordinances to address all issues required by state law, including current compensation of some officials and employees, establishment of the property tax approved tax levy for the year, and the procedures for collecting delinquent taxes.

Since ordinances represent legislation which has been passed by the board to govern the city and its residents, it is important that the city's ordinances be maintained in a complete and up-to-date manner. An index of all ordinances passed and rescinded by the city could help keep track of additions and changes made to the city. This index should clearly show when an ordinance has been rescinded, and reference the user to the updated ordinance. In addition, Sections 79.270 through 79.320, RSMo, require the duties, powers, compensation, and terms of office of the city officials and employees be set by ordinance, and Sections 94.190.3 and 94.210, RSMo require the property tax rate be set annually by ordinance.

- D. The city has adopted a policy regarding public access to city records; however, the policy states, that \$.50 is to be charged for each page copied and \$5.00 per hour for document search which does not comply with state law.

Section 610.026, RSMo, indicates that the fees for copying public records shall not exceed ten cents per page for a paper copy not larger than nine by fourteen inches, with the hourly fee for duplicating time not to exceed the average hourly rate of pay for clerical staff of the public governmental body. The cost of copying information onto a disk shall only include staff time, which shall not exceed the average hourly rate of pay for staff of the public governmental body and if necessary the cost of the disk, tape, or other medium used for the duplication. This ordinance and policy should establish a person to contact and an address to mail requests for access to records. In addition, Section 610.023, RSMo, lists requirements of making city records available to the public.

WE RECOMMEND the Board of Aldermen:

- A. Ensure board minutes are accurately signed to attest to their accuracy.

- B. Document how topics discussed in closed session comply with state law and ensure decisions made in closed session are properly reported in the open minutes when required.
- C. Ensure all ordinances required by state law are adopted, and consider establishing an index of all city ordinances passed and rescinded.
- D. Ensure written policies and procedures regarding public access to and/or copies of city records are in compliance with state law.

AUDITEE'S RESPONSE

The Mayor, Board of Aldermen, and City Clerk indicated:

A&C. These recommendations will be implemented.

B. This recommendation will be implemented. The City Attorney helps monitor closed session discussions.

D. The City has been charging ten cents for copies of city records, and will change their policy to reflect this.

8. Property Tax Procedures

The City Collector does not prepare annual reports of tax collections and delinquent taxes, charge the correct penalty on delinquent taxes, or reconcile receipts to deposits. The City Collector processed approximately \$24,800 in property taxes during the year ended June 30, 2006.

- A. The City Collector does not prepare annual reports of tax collections and delinquent taxes. Sections 79.310, 94.320, and 94.330, RSMo, 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.

Detailed 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. Without such a report, examined by the Board of Aldermen, any errors or irregularities that might occur are likely to go undetected.

- B. The City Collector charges a one percent penalty per month for delinquent taxes paid; however, there is no documentation supporting these rates. Section 140.100.1, RSMo, provides that a county collector can charge a penalty of two percent per month up to a maximum of eighteen percent per year for each delinquent tax bill. (As discussed in MAR 7, there is no ordinance for the collection of delinquent taxes.) To help ensure prompt collection of property taxes, the city should establish formal procedures regarding the collection of delinquent property tax bills.
- C. The City Collector accepts cash, checks and money orders for the payment of property taxes. The City Collector does not indicate the method of payment on the receipt slips issued for city sticker monies collected. As a result, the composition of tax receipts can not be reconciled to the composition of bank deposits.

To properly reconcile receipts to deposits and ensure all monies are being deposited intact, the composition of receipts should be reconciled to the composition of deposits.

WE RECOMMEND the City Collector:

- A. Prepare and maintain detailed annual reports of taxes collected and delinquent taxes. In addition, the reports should be reviewed and approved by the Board of Aldermen.
- B. Ensure the penalty for the collection of delinquent property taxes is charged in accordance with state law.
- C. Ensure the composition for all receipts is documented and reconciled to the composition of the deposits.

AUDITEE'S RESPONSE

The City Collector indicated:

- A. *That she will try to implement this recommendation; however, the delinquent list is quite lengthy.*
- C. *This recommendation has been implemented.*

The Board of Alderman indicated:

- B. *The City will develop an ordinance to establish procedures for collection of delinquent taxes.*

The city did not hold a special election to fill the chief of police position, failed to remit payroll withholding taxes, and did not meet federal reporting requirements for 3 employees. In addition, the acting police chief received overtime pay,

- A. The city did not hold a special election to fill the chief of police position as required. City ordinances indicate that if an elected official resigns from office, and there is more than six months until the next election, the city should hold a special election. The next special election that candidates would have been able to file for, in this instance, would have been the August 2005 election; however, the city did not put this position on the ballot. Instead, the “acting Chief of Police” was allowed to complete the term.

When the Chief of Police resigned in April 2005, the Board voted to make a city police officer the “acting Chief of Police.” A board member indicated that the City Attorney advised the Board to make the officer “acting Chief of Police” in order for him to keep his current salary (which was more than the salary established for the police chief) and to establish ordinances to allow this. The police officer was allowed to keep his prior salary of \$440 per week and \$8 per hour for anything over 50 hours in one week; however, this arrangement was not documented in the minutes and no ordinances were established. During the year ended June 30, 2006, the “acting Chief of Police” was paid approximately \$2,160 for overtime.

The City did not have documentation indicating they had reviewed this arrangement for compliance with the FLSA. In addition, Section 79.270, RSMo, states that the salary of a municipal officer shall be established by ordinance and shall not be changed during his term of office.

- B. The city failed to remit required federal payroll withholding taxes from September 2005 through December 2005. In addition, the City Clerk indicated that before she took office in February 2005 the city had not been making regular payments to the Missouri Department of Revenue (DOR) or to the Federal Internal Revenue Service (IRS). The city utilizes a local accounting firm to prepare the quarterly withholding reports for the IRS and DOR; however the City Clerk files the report with the applicable agency and remits the payment.

The City Clerk indicated she received some invoices from the DOR showing an estimate of the past due amount of withholding taxes, which she used to make some payments. The city requested an audit by the DOR because they believed they may have overpaid. According to the audit performed in May 2006, by the Missouri Department of Revenue, the city is entitled to a refund of \$1,219 from the state. However, the City Clerk indicated that because federal payroll withholding taxes were not regularly turned over to the IRS, there is also a

delinquent amount due to the IRS, but she was unsure as to the amount owed since no invoices have been received. However, at least \$10,092 is due for the period of September through December 2005.

Good business practices, and federal and state regulations, require the city to make timely deposits of tax withholdings to avoid unnecessary penalties and interest.

- C. Federal reporting requirements were not met for the city collector, humane officer or the municipal judge. A 1099 MISC form or a W-2 was not prepared for these employees. In 2005, the city collector received approximately \$1,920, the humane officer received approximately \$645, and the municipal judge received a salary of \$3,600.

The Internal Revenue Code generally indicates individuals treated as employees should have all compensation reported on Forms W-2. Section 6041 of the Internal Revenue Code requires non-employee compensation paid of at least \$600 in a calendar year to an individual or unincorporated business to be reported to the IRS.

A similar condition was noted in a prior report.

WE RECOMMEND the Board of Aldermen:

- A. Ensure future vacancies of elected officials are filled in accordance with ordinance and raises for officials comply with state law.
- B. Ensure the required payroll tax withholding payments are paid in a timely manner. In addition, contact the IRS to determine how much is owed for federal payroll withholding taxes.
- C. Ensure IRS 1099 MISC form and W-2 forms are prepared and submitted as required.

AUDITEE'S RESPONSE

The Mayor, Board of Aldermen, and City Clerk indicated:

A&C. These recommendations will be implemented.

- B. This recommendation will be implemented. The City intends to contact the IRS to determine the amount owed for federal payroll withholding taxes.*

The city has not filed annual financial reports with the State Auditor's office since 1999, published semi-annual financial statements, or prepared annual budgets, as required by state law. In addition, the budget for fiscal year ended June 30, 2006 did not comply with state law.

- A. Annual financial reports have not been filed with the State Auditor's office since the fiscal year ended June 30, 1999. Section 105.145, RSMo, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's office.
- B. While the city published financial statements on February 2, 2006, for the period of July 1, 2005 through December 31, 2005, they did not publish financial statements for the preceding six months. The city's published financial statements did not include some of the city's accounts or a statement of indebtedness. Section 79.160, RSMo, requires the Board of Aldermen to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six month period. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statement is published.
- C. The budget for the year ended June 30, 2006, was not adopted by ordinance on a timely basis. Per the board minutes, the Board approved the FY 2006 budget on February 28, 2006. In addition, the budget did not include all of the city funds. Section 67.010, RSMo, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year.

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. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations, and include the beginning available resources and a reasonable estimate of the ending available resources. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding years. In addition, the budget should be adopted by ordinance.

WE RECOMMEND the Board of Aldermen:

- A. Submit annual reports of financial transactions to the State Auditor's office as required by state law.
- B. Publish semi-annual financial statements as required by state law.

- C. Prepare an annual budget that contains all information required by state law to provide a complete financial plan for the City. In addition, the budget be adopted by ordinance.

AUDITEE'S RESPONSE

The Mayor, Board of Aldermen, and City Clerk indicated:

A&C. These recommendations will be implemented.

B. This recommendation has been implemented; the City has published the 6 month financial statement.

11. General Fixed Assets

The city has not established formal policies and procedures for general fixed assets, including procedures for an annual physical inventory. In addition, the city does not maintain property records to account for the general fixed assets owned by the city.

Adequate general fixed asset records are necessary to provide better internal controls over city property and provide a basis for proper financial reporting. Formal policies and procedures for the annual physical inventory are necessary to ensure all personnel understand the duties assigned to them.

To develop appropriate records and procedures for general 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 cost 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.

A condition similar was noted in a prior report.

WE RECOMMEND the Board of Aldermen establish property records for general fixed assets that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.

AUDITEE'S RESPONSE

The Mayor, Board of Aldermen, and City Clerk indicated:

The city is currently working on implementing this recommendation.

12.

Maintenance of Streets

The city has not established any city wide plan for the construction, repair, or maintenance of streets. During the year ended June 30, 2006, the city spent approximately \$7,500 on street salaries and materials.

A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year. In addition, the city needs to review its street fund to ensure monies are available to fund such a plan.

A condition similar was noted in a prior report.

WE RECOMMEND the Board of Aldermen prepare a formal maintenance plan for city streets as part of the budget, and periodically update the plan throughout the year as needed.

AUDITEE'S RESPONSE

The Mayor, Board of Aldermen, and City Clerk indicated:

This recommendation will be implemented.

13.

Volunteer Fire Department

The relationship between the city and the Clarkton Volunteer Fire Department (CVFD) is not clear, and there is no written agreement stating the duties and responsibilities of each entity.

The CVFD registered as a not-for-profit agency in April 1990. The CVFD provides fire protection to the citizens of Clarkton and the surrounding rural area, and has a first responder's unit, which responds to emergencies before an ambulance arrives. The city pays the CVFD \$7 per fireman for each fire and \$500 collected from the property owner for fires outside the city limits. The city also pays for the general expenses of the fire department, i.e. insurance, utilities, fuel. During the year ended June 30, 2006, the city paid approximately \$3,900 for Fire Department expenses.

As discussed in our prior 1995 report, the CVFD received a loan in 1991, from the United States Department of Agriculture (USDA) for a fire station and fire equipment. The CVFD entered into lease agreements with the city to lease the fire station and fire equipment to the city for 20 years and 15 years, respectively. (The fire equipment loan was paid off in December 2005.) This lease requires the city to pay annual lease payments to the CVFD to pay for the loans, maintain two reserve accounts in accordance with the loan provisions, and provide insurance and maintenance of the fire station and equipment. Under the terms of the lease agreement the city will not own these assets; instead they will remain the property of the CVFD. As a result, the city will have used public funds to fully pay for these assets but will have failed to obtain ownership. In addition, the lease agreements do not contain a “walk away” or nonappropriation clause, which would allow the city to cancel its lease with the CVFD. Therefore, it appears the city may have incurred a substantial long-term debt.

Our prior report recommended that the Board of Aldermen review the city’s relationship with the CVFD, renegotiate the lease agreement to make the lease payments subject to annual appropriations and add provisions to vest ownership of the assets acquired under the lease in the city at the end of the lease terms, and require the CVFD to provide a periodic financial report to the city. These recommendations have not been implemented.

The present situation places the city and the volunteer fire department in the position of not knowing the relationship and corresponding requirements of each entity. The city needs to determine the relationship between the city and the fire department and may want to enter into a contract stating the duties and responsibilities of each entity. In addition, the city should consider renegotiating the remaining lease agreement to make the lease subject to annual appropriations and add provisions to vest ownership of the assets at the end of the lease term.

WE RECOMMEND the Board of Alderman enter into a written agreement with the volunteer fire department stating the fire department’s and the city’s duties and responsibilities. In addition renegotiate the remaining lease agreement to make the lease subject to annual appropriations and add provisions to vest ownership of the assets at the end of the lease term.

AUDITEE'S RESPONSE

The Mayor, Board of Aldermen, and City Clerk indicated:

This recommendation will be implemented.

Neither the police department nor the municipal division account for the numerical sequence or ultimate disposition of traffic tickets issued. A bond ledger is not maintained and restricted court fees are not charged correctly or used for their intended purpose. During the year ended June 30, 2006, the court processed approximately \$27,490 in fines and court costs.

- A. The Chief of Police maintains a log of all traffic tickets and summonses issued by police department; however, there are no procedures in place to ensure all tickets issued by the police department are turned over to the City Clerk, who also serves as the Court Clerk. Neither the police department nor the municipal division account for the numerical sequence of traffic tickets issued or their ultimate disposition.

Without a proper accounting of the disposition of traffic tickets, the police department and the municipal division cannot be assured that all traffic tickets issued were properly submitted to the City Clerk/Court Clerk for processing. A record of the ultimate disposition of each traffic ticket should be maintained to ensure all traffic tickets have been accounted for properly.

- B. The City Clerk/Court Clerk does not maintain a bond ledger and does not prepare a monthly listing of open items (liabilities). A bond ledger indicating the date and amount of receipt and date of disbursement is necessary to ensure proper accountability over bonds. A monthly listing of open items is necessary to ensure proper accountability over open cases and to ensure monies held in trust by the court are sufficient to meet liabilities. At June 30, 2006 the bond account had a balance of \$2,231.
- C. The city's ordinance indicates that \$2.25 is to be collected for LET fees and \$.25 is to be collected for the Municipal Court Employee Education and Training; however, these fee amounts are contradictory to state statute. Section 488.5336.1, RSMo indicates a surcharge of two dollars may be assessed as costs in each criminal case for Law Enforcement Training and Section 479.260.1 RSMo indicates that the municipal division may withhold \$1 of the court costs collected on each case and deposit the amounts in an account under its control for the continuing education and certification required of the municipal judges, and for judicial education and training for court administrators and clerks. The city should establish a new ordinance, which complies with state statute, indicating that \$2.00 be collected for Law Enforcement Training Fund and that \$1.00 be withheld from court costs (not collected in addition to court costs) for the Judicial Education Fund.

Conditions A and B, were also noted in our prior report of the Thirty-Fifth Judicial Circuit Municipal Divisions for the two years ended 1998 and 1997.

Condition B and C were noted in a prior report.

WE RECOMMEND the Clarkton Municipal Division:

- A. Work with the police department to establish a log of tickets issued to ensure records are maintained to account for the numerical sequence and ultimate disposition of all tickets issued.
- B. Maintain a bond ledger and reconcile a monthly listings of open items to monies held in trust.
- C. Request the city review and revise their ordinances to comply with state statute.

AUDITEE'S RESPONSE

The Mayor, Board of Aldermen, and City Clerk/Court Clerk indicated:

A&C. These recommendations will be implemented.

B. This recommendation has been implemented.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF CLARKTON, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Clarkton is located in Dunklin County. The city was incorporated in 1908 and is currently a fourth-class city. The population of the city in 2000 was 1,330.

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended June 30, 2006, are identified below. The mayor is paid \$150 per month and the Alderman \$50 per month. The compensation of these officials is established by ordinance.

<u>Mayor and Board of Aldermen</u>	<u>Dates of Service During the Year Ended June 30, 2006</u>	
Greg Reynolds, Mayor	April 2006 - June 2006	
Tony Simpson, Mayor (1)	July 2005 - April 2006	
Mike Johnson, Mayor (1)	July 2005	
Ernie Woodall, Alderman	April 2006 - June 2006	
Chester Graham, Alderman	July 2005 - April 2006	
Wanda Smart, Alderman	July 2005 - June 2006	
Jerry Cunningham, Alderman	April 2006 - June 2006	
Tommy Ross, Alderman (2)	August 2005 - April 2006	
Tony Simpson, Alderman (2)	July 2005	
Larry Brown, Alderman	July 2005 - June 2006	
<u>Other Elected Officials</u>	<u>Dates of Service During the Year Ended June 30, 2006</u>	<u>Compensation Paid for the Year Ended June 30, 2006</u>
Tony Cogburn, Chief of Police	April 2006 - June 2006	\$ 9,900
Freddie Polk, Acting Chief of Police (3)	July 2005 - January 2006	15,360
Ardella Cowell, City Collector	July 2005 - June 2006	1,920
<u>Other Principal Officials</u>	<u>Dates of Service During the Year Ended June 30, 2006</u>	<u>Compensation Paid for the Year Ended June 30, 2006</u>
Pamela Allen, City Clerk/Treasurer/Court Clerk	July 2005 - June 2006	\$ 23,154
Mark Preyer, City Prosecutor	July 2005 - June 2006	4,200
Mark Preyer, City Attorney	December 2005 - June 2006	1,945
Jim Bruce, City Attorney	July 2005 - November 2005	5,450

Bill Lawrence, Water Supervisor	July 2005 - June 2006	20,180
Lee Roy Roberts, Sewer and Street Supervisor	July 2005 - June 2006	21,076
Rick Cornman, Fire Chief	July 2005 - June 2006	550
Phillip Santie, Municipal Judge	July 2005 - June 2006	3,600

- (1) Tony Simpson was appointed Mayor in July 2005 upon Mike Johnson's resignation.
- (2) Tommy Ross was appointed Alderman upon Tony Simpson's appointment to Mayor.
- (3) Appointed in July 2005 to fill the unexpired term of the Chief of Police after his resignation.

In addition to the officials identified above, the city employed 3 full-time employees and 1 part-time employee on June 30, 2006.

Assessed valuations and tax rates for 2005 were as follows:

ASSESSED VALUATIONS

Real estate	\$	2,968,087
Personal property		<u>1,867,505</u>
Total	\$	<u><u>4,835,592</u></u>

TAX RATE(S) PER \$100 ASSESSED VALUATION

		<u>Rate</u>
General Fund	\$	0.6116

TAX RATE(S) PER \$1 OF RETAIL SALES

		<u>Rate</u>
General	\$	0.0100

A summary of the city's financial activity for the year ended June 30, 2006, is presented below:

	General Fund	Water Fund	Sewer Fund	Total
REVENUES				
Property taxes	\$ 29,462	0	0	29,462
Motor fuel taxes	103,803	0	0	103,803
Water fees	0	120,502	0	120,502
Sewer fees	0	0	114,754	114,754
Franchise fees	41,980	0	0	41,980
Trash fees	38,705	0	0	38,705
Municipal Court fees	27,491	0	0	27,491
Interest	93	68	57	218
Fire calls	1,702	0	0	1,702
Reimbursement on salary	20,702	0	0	20,702
Grants	15,750	0	0	15,750
Other	31,323	4,480	416	36,219
Transfer in	0	20,558	0	20,558
Total Receipts	311,011	145,608	115,227	571,846
EXPENDITURES				
General	151,615	0	0	151,615
Police Department	147,684	0	0	147,684
Water Department	0	80,165	0	80,165
Sewer Department	0	0	79,627	79,627
Fire Department	3,895	0	0	3,895
Transfer out	1,281	0	19,277	20,558
Total Disbursements	304,475	80,165	98,904	483,544
Revenues Over (Under) Expenditures	6,536	65,443	16,323	88,302
Fund Balance, July 1, 2005	1,930	3,896	598	6,424
Fund Balance, June 30, 2006	\$ 8,466	69,339	16,921	94,726