



Claire McCaskill

Missouri State Auditor

December 2006

City of Moscow Mills,
Missouri

Year Ended December 31, 2005



Office Of
Missouri State Auditor
Claire McCaskill

December 2006

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

The city of Moscow Mills is in poor financial condition as a result of overspending, inadequate oversight and improper budgetary practices. The budgeted disbursements for the General Fund for the year ended December 31 2006, exceed budgeted receipts by approximately \$117,796, resulting in an estimated balance of only \$10,000. The Board receives a budget to actual report each month prior to the board meeting, but the board minutes do not indicate any discussion of this report.

Moscow Mill's financial obligations have risen significantly over the last several years. From 2004 to 2005 the overall financial liability of the city has increased approximately 222 percent from \$2.3 million to \$7.5 million. This has led to an increased level of liabilities per capita. Most of this debt was used to finance expansion of the city's water and sewer system. The city should develop a debt policy for monitoring various debt ratios which would help ensure the city is maintaining adequate financial stability.

During the year ended December 31, 2005, actual disbursements exceeded budgeted amounts in the Waterworks Fund by \$31,248, and the Debt Service Fund by \$240,298. In addition, a budget was not prepared for the Project Fund, which was established in December 2005. Approximately, \$1,737,980 was disbursed from this fund in 2005. The Board of Aldermen significantly overestimated the disbursements of the Water Repair and Replacement Fund and the Sewer Repair and Replacement Fund, when preparing the 2005 budget. Also, the city's 2005 budget and semi-annual published financial statements did not include the city's indebtedness as required by law.

The city has not prepared an annual maintenance plan for city streets or otherwise informed the taxpayers of the city's intended use of the balance of the Street Fund, other than the budget. The Street Fund balance at December 31, 2005, was approximately \$369,690, while disbursements for the fiscal year totaled only approximately \$107,500. The majority of these disbursements were for street lights and administrative expenses.

In 2005, the City received approximately \$917,600 in water, sewer and trash fees. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. The gallons of water billed in December 2005 were 28 percent or 1,343,192 gallons less than the gallons of water pumped.

The City has not formally identified and documented any other costs, such as administrative costs, related to trash service. Trash service receipts are deposited into the
(over)

YELLOW SHEET

Waterworks Fund and disbursements are made monthly from the fund for trash services. The city retains a percentage of the trash fees collected. Trash fees should be set at a level to cover the cost of providing a particular service and should not be used to supplement other services of the city.

The Board of Aldermen does not review and approve the payment of city expenditures prior to the checks being issued. A financial report is prepared monthly by the City Clerk which includes a detailed listing of all disbursements by fund; however, the disbursements represent the preceding month's activities.

Some disbursements do not appear to be a prudent use of public funds including purchasing flowers and plants for funerals and an annual Christmas party. In addition, the Board of Aldermen approved bonus payments to the full time city employees. The minutes indicate this was a "one time pay increase"; however, the employees monthly salaries did not increase. These bonuses appear to represent additional compensation for services previously rendered and, as such may be in violation of the Missouri Constitution and an Attorney General's Opinion.

The city has a credit card used to make miscellaneous purchases. Adequate supporting documentation was not submitted or retained for some charges, including hub caps, and software updates. Also, acknowledgment of receipt of goods or services is not documented on some invoices. Finally, the city pays \$2,000 yearly to a not-for-profit organization that supplies transportation to the elderly and handicapped without entering into a written contract as required by state law.

Also included in the report are recommendations related to board minutes, city policies, vehicles and equipment, accounting controls and procedures, petty cash funds, payroll allocation, capital assets, and the municipal court.

All reports are available on our website: www.auditor.mo.gov

CITY OF MOSCOW MILLS, 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 Moscow Mills, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Moscow Mills, Missouri. The scope of our audit of the city included, but was not necessarily limited to, the year ended December 31, 2005. 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; 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 Moscow Mills, Missouri.



Claire McCaskill
State Auditor

August 17, 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 MOSCOW MILLS
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Financial Condition
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The city of Moscow Mills is in poor financial condition as a result of overspending, inadequate oversight and improper budgetary practices.

The fund balances, shown in the chart below, decreased by approximately 46%. In addition, actual disbursements exceeded actual receipts for these funds for the year ended December 31, 2005, as follows:

		General Fund	Waterworks Fund	Sewer Fund
Actual Receipts	\$	755,986	423,236	478,078
Actual Disbursements		836,890	564,603	552,371
Receipts over				
Disbursements		(80,904)	(141,367)	(74,293)
Beginning Balance		209,413	198,732	241,578
Ending Balance	\$	128,509	57,365	167,285

Also, the budgeted disbursements for the General Fund for the year ended December 31, 2006, exceed budgeted receipts by approximately \$117,796, resulting in an estimated balance of only about \$10,000.

The Board receives a budget to actual report each month prior to the board meeting, but the board minutes do not indicate any discussion of this report. A budget to actual report helps ensure budgets are not overspent and funds are available for disbursements. Inadequate oversight and monitoring have inhibited the Board to effectively monitor and manage the city and have resulted in, or contributed to the problems noted above. These weaknesses include allowing actual disbursements to exceed budgeted disbursements as documented in MAR finding number 2.

The Board of Aldermen should review disbursements, reducing discretionary spending as much as possible. In addition, the Board should monitor the financial condition of the city by reviewing a budget to actual comparison and the financial statements on a timely basis.

WE RECOMMEND the Board of Aldermen review the current financial condition of the city and consider the various alternatives of reducing disbursements and/or increasing receipts.

AUDITEE'S RESPONSE

The Board of Aldermen is in the process of formulating the 2007 budget, at which time the matter of reducing disbursements and/or increasing receipts will be discussed.

2. Budgets, Financial Reporting and Planning

The Board of Alderman authorized disbursements in excess of budgeted amounts, overestimated disbursements for some funds, and did not prepare a budget for the Project Fund. In addition, information regarding the city's indebtedness was omitted from the city's semi-annual published financial statements and the city's budget. Also, the city has not developed a formal street maintenance plan.

A. Several concerns were noted regarding the city's budgets.

1. During the year ended December 31, 2005, actual disbursements exceeded budgeted amounts in the Waterworks Fund by \$31,248, and the Debt Service Fund by \$240,298. In addition, a budget was not prepared for the Project Fund, which was established in December 2005, due to the passage of a bond issue. Approximately, \$1,737,980 was disbursed from this fund in 2005.

The Board of Aldermen receive budget to actual comparison reports monthly. However, the city did not prepare amended budgets for these funds nor did the city set forth any reasons for exceeding the budgeted amounts in the board minutes or adopt a resolution authorizing the additional expenditures.

Section 67.040, RSMo, indicates a political subdivision shall not increase the total amount authorized for disbursements from any fund, unless the governing body adopts a resolution setting forth the reasons making the increase necessary and approves or adopts a resolution or ordinance to authorize the expenditures.

2. The Board of Aldermen significantly overestimated the disbursements of the Water Repair and Replacement Fund and the Sewer Repair and Replacement Fund, when preparing the 2005 budget:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget over Actual</u>
Water Repair and Replacement	\$ 140,918	\$ 1,889	\$ 139,029
Sewer Repair and Replacement	69,204	3,622	65,582

The City Clerk indicated the amounts budgeted were for equipment replacement per the water and sewer rate study that had been performed; however, after the budget had been approved the Maintenance Supervisor determined the equipment was not necessary. For the budget documents to be of maximum assistance to the Board of Aldermen and to adequately inform city residents of the city's operations and current financial position, the budgets should accurately reflect resources on hand, reasonable estimates of receipts and disbursements, and anticipated ending cash balances.

- B. The city's 2005 budget and semi-annual published financial statements did not include the city's indebtedness as required by law. At December 31, 2005, the principal balance of the county's bonded debt and loans was approximately \$7.5 million. The City Clerk indicated she was unaware the city's indebtedness needed to be included in these documents.

Section 67.010, RSMo, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year. Section 79.160, RSMo, provides details regarding the various information required to be provided in the city's semi-annual published financial statements, and requires that a detailed account of receipts, disbursements, and indebtedness be presented for all funds of the city.

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 disbursements. A complete budget should include separate receipt and disbursement estimations, and include the beginning available resources, a reasonable estimate of the ending available resources and the amount required for the payment of interest, amortization, and redemption charges on the debt and balances of the indebtedness of the city.

Complete published financial statements are needed to adequately inform the citizens of the city's financial activities and show compliance with statutory requirements.

- C. The city has not prepared an annual maintenance plan for city streets or otherwise informed the taxpayers of the city's intended use of the balance of the Street Fund, other than the budget. The Street Fund balance at December 31, 2005, was approximately \$369,690, while disbursements for the fiscal year totaled only approximately \$107,500. The majority of these disbursements were for street lights and administrative expenses, while street maintenance disbursements consisted of only \$2,724 for street signs, \$10,258 for asphalt, \$847 for rock, \$660 for rock hauling and \$3,377 for ice control.

A formal maintenance plan should be prepared in conjunction with the annual budget and include a description of the streets to be worked on, the type of work to be performed, 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, along with the budget, should inform the public of the city's planned use of the resources available in the Street Fund.

WE RECOMMEND the Board of Aldermen:

- A.1. Review budget to actual reports carefully and refrain from approving disbursements which exceed budgeted amounts. In addition, amend budgets to include any new revenues that the city receives.
2. Ensure budgeted disbursements are reasonable so that a more realistic estimate of the city's financial condition is presented and to increase the budget's effectiveness as a management tool.
- B. Ensure all required information is presented in the city's annual budget and semi-annual published financial statements.
- C. Prepare a formal maintenance plan for city streets at the beginning of the fiscal year and periodically update the plan throughout the year. The plan should be prepared in conjunction with the annual budget and should inform the city residents of the planned use of the balance of the Street Fund.

AUDITEE'S RESPONSE

- A.1. *The Board of Aldermen will continue to receive a budget to actual report with their monthly meeting information. This item will now also be placed on the monthly agenda for discussion starting in December of 2006. A quarterly budget review has been done for the 1st, 2nd, and 3rd quarters of 2005 and 2006, but there was no end of year review done in December to make amendments that may have surfaced since the 3rd quarter review. A review will be added to the December agenda of each year starting in 2006, and amendments will be made if necessary.*
2. *The Board of Aldermen receives budget disbursement information when formulating the budget from each department. The Board of Aldermen will review this budget information at the budget meetings, as they have done in the past and compare to prior years' totals.*

- B. *The semi-annual published financial statements and budgets will include City indebtedness. The first semi-annual statement published for 2006 did include this information.*
- C. *The City will prepare a formal maintenance plan for City streets at the beginning of each fiscal year, starting with the fiscal year 2007. The plan will be reviewed along with the budget on a quarterly basis. This plan will inform the residents of the City of the planned use of the balance of the Street Fund.*

3.	Financial Obligations
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The city does not have a debt policy; however, the city's financial obligations have risen significantly over the last several years to a level higher than that of similar sized cities due in large part to the use of waterworks revenue bonds and a lease agreement.

From 2004 to 2005 the overall financial liability of the city has increased approximately 222 percent from \$2.3 million to \$7.5 million. This has led to an increased level of liabilities per capita. Most of this debt was used to finance expansion of the city's water and sewer system.

The following chart shows Moscow Mills compared to other similar cities within the state for 2005:

City	Long Term Debt	U.S. Census Bureau Population Estimate for 2005	Total Liabilities per Capita
Moscow Mills	\$ 7,495,000	2,232	\$ 3,358
Clarkton	540,630	1,280	422
Ashland	1,240,000	2,175	570
Houston	603,933	2,005	301
Cabool	810,438	2,140	379

These city's were selected because they had similar populations and provided water and sewer service. Moscow Mills has experienced significant growth in their population in the last 5 years which probably contributed to their increase in debt; however, Ashland has experienced a similar population increase.

The city should develop a debt policy for monitoring various debt ratios which would help ensure the city is maintaining adequate financial stability. In addition, the policy should ensure the city is carefully considering the method of repayment for new debt and increased reliance on the waterworks revenue.

WE RECOMMEND the Board of Aldermen develop a debt policy and monitor the overall financial obligations of the city.

AUDITEE'S RESPONSE

The City will check with other cities to see what kind of system they are using to monitor overall financial obligations of the City, and to see if they have a debt policy we could use as a model to prepare one. Estimated completion date is unknown, but will be targeted for April, 2007.

4. Board Minutes

The minutes of open meetings do not document the specific reason for closing a meeting, nor are they signed by the City Clerk and the Mayor. In addition, the board did not document how some items discussed in closed sessions complied with state law.

- A. The minutes of open meetings do not document the specific reasons for closing a meeting. In addition, the board did not document how some items discussed in closed sessions complied with state law, including discussion on the city's leave policy, and access to city hall and computers.

Section 610.022, RSMo, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session. In addition, this law provides that the board shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote. Section 610.021, RSMo, lists the topics which may be discussed in closed session.

- B. Board meeting minutes are prepared by the City Clerk; however, they are not signed by the City Clerk and Mayor. Board minutes are verbally approved by the Board of Aldermen during a subsequent board meeting. The minutes should be signed when prepared by the City Clerk, and by the Mayor immediately upon approval to provide an attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.

WE RECOMMEND the Board of Aldermen:

- A. Ensure minutes document the vote to go into closed session and state the reasons for going into closed session. In addition, the board should ensure only allowable specified subjects are discussed in closed session.
- B. Require the board minutes be signed by the City Clerk upon preparation and the Mayor upon approval.

AUDITEE'S RESPONSE

- A. *The open meeting minutes prior to August of 2006 did not state the specific statute number that the City was closing the meeting under, although it was stated in the closed minutes and on the agenda. In August the Board of Aldermen started the practice of making the statute a part of their motion in the open meeting minutes. The City Attorney is present during closed sessions, which should ensure that matters discussed are within the allowable guidelines set by Missouri Statute.*
- B. *Prior to August of 2006, the minutes were not signed by the City Clerk before being presented for approval, and were not signed by the Mayor after approval. In August of 2006 this practice was started.*

5

City Policies

The city has not established written policies for work hours, travel expenses, cellular phones, uniforms, computer access, or usage of city vehicles. In addition, the city did not follow the city code book relating to relatives working for each other, usage of the time clock, or conflict of interest. Also, the city codebook contains two different policies regarding the termination of water works services.

- A. The city has not established written policies for the following areas:
- The city does not have a formal policy establishing employee work hours. City hall is open from 8:00 a.m. to 4:30 p.m; however, time cards reflect that most employees work 8:00 to 4:00 or 8:30 to 4:30, but are paid for 8 hours each day. Based on the time cards, the City is paying the employees for their lunch break. In addition, this time is included in the determination of overtime.
 - The city has not developed a formal policy on the reimbursement of travel expenses. The city has only an informal policy setting the amounts to be reimbursed for travel expenses. In addition, the city does not adequately monitor travel advances. Documentation for one advance was not filed with the city until 2 months after the advance and was incomplete. Also, one employee was reimbursed for travel expenses from the petty cash fund.
 - The city has not established a policy regarding the usage of city vehicles to ensure compliance with IRS guidelines. The Maintenance Supervisor is allowed to use a City vehicle to commute to and from work. Internal Revenue Service (IRS) reporting guidelines indicate personal commuting mileage is a reportable fringe benefit. Furthermore, IRS guidelines require the full value of the provided vehicle to be reported if the employer does not require the submission of detailed logs which distinguish between

business and personal usage. Such logs are not maintained for this vehicle and are not required by the city. See MAR finding number 7 regarding vehicles.

- The city does not have a written computer policy regarding computer backups, requiring passwords, and limiting computer access.
- The city does not have a formal policy regarding cellular telephone usage or guidelines to determine whether a cellular telephone is needed or of benefit to the city. During the year ended December 31, 2005, cellular telephone expenses were approximately \$4,760 for the city's seven cellular telephones. In addition, the City Clerk receives a \$25 per month cellular telephone allowance.
- The City has not established a formal policy on employee uniforms. The City has an informal policy to purchase uniforms for employees and to provide cleaning for some uniforms. City personnel indicated the city purchases jeans and uniform shirts for the maintenance employees, uniforms for the police department, and polo shirts, denim shirts, and micro-fleece zip shirts for the clerical employees. The City spent approximately \$5,500 on uniforms and uniform cleaning during the 2005 fiscal year.

B. Some city policies have not been complied with:

- City employees do not always use the city time clock as required.
- The Maintenance Supervisor directly supervises one of his relatives, which appears to be in violation of city code.
- An alderwoman made a motion and voted to award the bid for employee health insurance to her employer in May 2006, without disclosing the relationship as required by city ordinance. This appears to be a potential conflict of interest.

C. The City's policy regarding the termination of waterworks services is not clear. Section 110.100 of the city codebook states "Any person who does not pay their utility service charge or charges by the due date or within ten days thereafter shall be subject to termination of all utilities and services"; whereas, section 113.260 states "A late payment penalty of ten (10) percent of the user charge bill will be added to each delinquent account (15) fifteen days after the billing date. When any bill is (30) thirty days in default, rendition of water and/or sewer service to such premises shall be discontinued until such bill is paid."

Currently the city terminates waterworks services after 60 days delinquent, which does not appear to comply with either of these policies. The City should review and update their policies.

Complete and detailed written policies are necessary to provide guidance for the effective and consistent management of the city's funds and employees. In addition, the Board should review these matters, and take appropriate steps to ensure compliance with the city code. Also, the Board should review and update their policies.

WE RECOMMEND the Board of Aldermen:

- A. Develop written policies to establish travel expense reimbursement, usage of city vehicles for commuting, access to city computers, cellular phone usage, and when and what type of uniforms will be provided.
- B. Ensure compliance with city policies.
- C. Review the current city practice and policies regarding waterworks service to determine the proper procedures are established and followed.

AUDITEE'S RESPONSE

- A. *The City will check with other cities to find model policies for travel expense reimbursements, usage of city vehicles for commuting, access to city computers, cellular phone usage, and uniforms provided. Estimated completion of this is unknown, but will be targeted for April of 2007. The maintenance supervisor has been informed to keep a log of his commute to and from work with the City vehicle so that it may be properly reported to the IRS as a fringe benefit. He has already started keeping this log.*
- B. *All employees have been reminded of the city policy stated in the code book to use the time clock to clock in and out.*

The Board of Aldermen and Mayor will review the current situation and policy regarding an employee being supervised by a relative.

Aldermen will abstain from voting, and a reason will be stated in the minutes for the record, when there is a vote on an item that may potentially be a conflict of interest.

- C. *The City's current practice and policies regarding waterworks service termination will be reviewed and proper procedures will be established and followed. Estimated completion of this is unknown, but is targeted for April of 2007.*

6. Water and Trash Services

The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. In addition, the City retains a portion of the trash fee, but has not formally identified and documented any other costs, such as administrative costs, related to trash service.

In 2005, the City received approximately \$917,600 in water, sewer and trash fees.

- A. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. The Deputy City Clerk prints a monthly report showing the total amount of gallons of water billed each month to city customers for the Maintenance Supervisor. The maintenance department records the daily meter readings from the city's wells, and totals the number of gallons pumped for the month. The Maintenance Supervisor compares the two reports, but does not document his comparison, nor does he investigate any differences. The gallons of water billed in December 2005 were 28 percent or 1,343,192 gallons less than the gallons of water pumped.

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.

- B. The City has not formally identified and documented any other costs, such as administrative costs, related to trash service. Trash service receipts are deposited into the Waterworks Fund and disbursements are made monthly from the fund for trash services. Currently the city collects \$10 per month per household and \$5 per month per household for senior citizens. The City retains 6% of trash collections as an administrative fee, which totaled approximately \$5,040 for the year ended December 31, 2005. Trash fees should be set at a level to cover the cost of providing a particular service and should not be used to supplement other services of the city. The administrative costs of providing this service should be calculated and documented and a separate accounting of trash revenues and expenses should be maintained.

WE RECOMMEND the Board of Aldermen:

- A. Reconcile gallons of water pumped to the gallons billed on a monthly basis and investigate significant differences. In addition, the reconciliations should be documented.
- B. Identify all costs, including administrative costs, of providing trash service, and set the fee at a level sufficient to cover the cost of the service without generating excess revenues. The board should maintain a separate accounting of all trash revenues and expenses.

AUDITEE'S RESPONSE

- A. *The Maintenance Department will reconcile the gallons of water pumped to the gallons billed on a monthly basis, investigate significant differences, and document the findings.*

- B. *A study has been started in November of 2006 to see how much of the Deputy City Clerk's time is spent on administrating the trash service setup, billing, collection, and terminations. We expect to continue this study through December. The City is currently keeping track of trash revenues and expenses in the Water works fund by line item. If it is determined that this needs to be changed to the General Revenue fund that change will be made after the study is completed and discussed. This discussion will be targeted for January of 2007.*

7.

Vehicles and Equipment

Fuel usage of the city is not adequately monitored. For the year ended December 31, 2005, the city paid approximately \$26,300 for bulk fuel.

The city has two bulk fuel tanks used for the city's 12 vehicles and 11 pieces of equipment. A usage log is not maintained to document the usage of the vehicles. The city maintains fuel logs for the vehicles and equipment; however, this log is not reviewed or reconciled to fuel purchases and the amount of fuel on hand. In addition, the city does not review the miles per gallon on the vehicles for reasonableness.

Without adequate usage logs, the city cannot effectively monitor that vehicles are used for official business only, that fuel costs for vehicles are reasonable, and that billings to the city represent legitimate and appropriate charges. Effective monitoring procedures include reviews of usage and fuel logs and comparison of log information to fuel purchases and maintenance charges. Logs are necessary to prevent paying vendors for improper billing amounts and to decrease the risk of theft or misuse of fuel or other maintenance items occurring without being detected.

WE RECOMMEND the Board of Aldermen require usage logs be maintained for all city owned vehicles and equipment, and fuel logs be reconciled to fuel purchases. A periodic review should be performed to ensure the reasonableness of the fuel purchases and usage. In addition, all reviews and reconciliations should be documented.

AUDITEE'S RESPONSE

This item will be reviewed and a policy will be set by the Board of Aldermen. Estimated completion is unknown, but will be targeted for April of 2007.

8.

Accounting Controls and Procedures.

Some monies received are not deposited intact in a timely manner, and checks and money orders are not restrictively endorsed immediately upon receipt. In addition, receipt slips are not issued for some monies received, and the numerical sequence of the receipt slips are not accounted for properly.

- A. Receipt slips are not issued for some monies received and the numerical sequence of receipt slips issued are not accounted for properly. Receipt slips are not issued for licenses and permits until the payment is posted to the City's accounting system.

When the City receives fees for business licenses, liquor licenses, or building permits, the City holds the individuals check until the license/permit is approved by the Board of Aldermen or Mayor. If the license/permit is not approved, the City will return the original check to the individual. The only documentation the City has to show this transaction occurred would be the denied license/permit application. If the check is returned to the individual, a receipt slip is not issued.

In addition, no one accounts for the numerical sequence of receipt slips issued. Several receipt slip numbers could not be accounted for in the system. The City Clerk indicated these receipt slips were discarded (when a transaction is started, but interrupted and ended during the middle of the process the receipt is discarded) or voided receipt slips; however, there was no documentation of the discarded or voided receipt slip. The City could not print a listing of discarded or voided transactions. Also, checks and money orders are not restrictively endorsed immediately upon receipt.

To adequately safeguard against theft or misuse of funds and to provide assurance that all receipts are deposited, all receipts should be deposited intact on a timely basis and all disbursements should be made by check. In addition, checks and money orders should be restrictively endorsed immediately upon receipt and deposits should be made intact on a timely basis.

Without issuing and accounting for prenumbered receipt slips for monies collected, the city cannot ensure all monies collected are ultimately recorded and deposited.

- B. City officials are not adequately bonded. Checks on the bank account require two signatures. The City Clerk and the Deputy City Clerk, who have authority to sign checks are bonded; however, the Mayor and President of the Board who also have the authority to sign checks are not bonded. Failure to adequately bond all persons with access to assets exposes the city to risk of loss.

WE RECOMMEND the Board of Aldermen:

- A. Ensure that all monies are deposited intact, all refunds are made by check, and checks and money orders are restrictively endorsed immediately upon receipt. In addition, require prenumbered receipt slips be issued for all monies received and the numerical sequence of those receipt slips be accounted for properly.
- B. Obtain bond coverage for any city officials with check signing authority.

AUDITEE'S RESPONSE

- A. *All checks and money orders are now stamped on the back ("for deposit only, City of Moscow Mills" with the account number) when received, rather than waiting until the deposit is actually made. The software company has been informed of the problem that the receipt number is not marked "VOID" when it is exited midway during entry. The City has received an estimated bid from the software company in the amount of \$300.00 to make the change to the software. The software company has stated that they could have this change made within 30 days of the approval of the agreement/estimate. All funds received for licenses or permits that require approval before issuance will now be deposited immediately. If a license or permit is not approved a check will be issued for the refund, rather than returning the original check or money order.*
- B. *The Mayor and President of the Board have both been bonded since October of 2006.*

9. Expenditures

The Board of Aldermen does not approve disbursements prior to payment, and some disbursements do not appear to be a prudent use of city funds. In addition, there is no documentation to support the allocation of various costs to restricted funds.

- A. The Board of Aldermen does not review and approve the payment of city expenditures prior to the checks being issued. A financial report is prepared monthly by the City Clerk which includes a detailed listing of all disbursements by fund; however, the disbursements represent the preceding month's activities. Disbursements 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. 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.
- B. The following disbursements do not appear to be a prudent use of public funds:
1. The city holds an annual Christmas party which the Board of Aldermen, the Park Board, the Planning and Zoning Board, the city employees, the Police Reserve, the members of the Citizens' Police Academy, and their spouses are invited to attend. The city pays all of the costs related to the party. In addition, the city purchased flowers and plants for funerals, film for children's pictures with Santa, and paid its portion of costs for the city - wide Easter egg hunt.
 2. The Board of Aldermen approved bonus payments to the full time city employees. The minutes indicate this was a "one time pay increase"; however, the employees monthly salaries did not increase. Separate

checks were issued for these payments in December 2005. These one time pay increases appeared to be bonuses paid to these employees.

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

The city's residents place a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. The above expenses do not appear to represent a necessary and prudent use of public funds.

- C. The City does not maintain adequate documentation for some expenditures.
1. The City has a credit card used to make other miscellaneous purchases. Adequate supporting documentation was not submitted or retained for some charges. Some items paid, including hub caps, and software updates, were not supported by vendor receipts or credit card slips. In addition, the City does not have a credit card policy in place.

Adequate supporting documentation should be retained for all credit card purchases, and reconciled to credit card statements to ensure the propriety of the charges. Adequate supporting documentation will help the city evaluate the necessity and reasonableness of credit card purchases. Credit card policies and procedures are necessary to provide guidance to employees, and help ensure city credit cards are used only for city business.
 2. Acknowledgment of receipt of goods or services is not documented on some invoices. The city's informal policy is to have all supervisors approve and document that items were received on the invoice prior to payment; however, on ten of the twenty items reviewed there was no acknowledgement of receipt noted. Proper acknowledgment of receipt is necessary to ensure that all goods or services paid for were actually received.
 3. The city maintains a petty cash fund of \$175 for miscellaneous purchases. Invoices or receipts were not always available to support disbursements from the fund and a ledger of petty cash disbursements was not maintained. The petty cash fund is under the control of the Deputy City Clerk, and no independent review is made of the fund to ensure it is maintained properly. Invoices should be retained for all petty cash

disbursements and a ledger should be maintained for all petty cash transactions.

Periodically, the petty cash funds on hand should be reconciled to the ledger balance by an independent person to ensure the funds are being accounted for properly, to detect errors, and to prevent these monies from being misused.

- D. The City pays \$2,000 yearly to a not-for-profit organization that supplies transportation to the elderly and handicapped without entering into a written contract.

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.

Article VI, Section 23, of the Missouri Constitution specifically prohibits counties, cities, or other political subdivisions of the state from granting public money or things of value to any corporation, association, or individual. To avoid being a donation, the city needs to ensure the monies are used for city provided services and they receive the required documentation from the entity documenting how the monies were spent or the services received by residents of the city of Moscow Mills.

- E. The City does not have formal documentation to support the allocation of payroll and equipment purchases to city funds. Currently, the maintenance employees' salaries are divided between the street, water, and sewer funds, and the City Clerk and Deputy City Clerk's salaries are divided between the general, water, and sewer funds. The City Clerk allocates the salaries based on the employee's estimate of time spent on each department, rather than using a percentage based on the actual number of hours worked. There is no formal documentation that shows the city's method of allocation. The allocation of equipment purchased is based on the amount of time the Maintenance Supervisor estimates each department will use the equipment. Adequate documentation is not maintained denoting how much time is actually spent on each area.

Adequate documentation to support the allocation of payroll and equipment purchases to the city's water and sewer funds is necessary to accurately determine the results of operations of specific activities, thus enabling the city to establish user charges necessary to meet all operating costs without generating profits to subsidize other city services.

In addition, for street funds Article IV, Section 30, of the Missouri Constitution, requires that motor vehicle-related receipts apportioned by the state of Missouri be used for street-related purposes, including policing, signing, lighting, and cleaning of roads and streets. To ensure compliance with the Missouri Constitution, the city should maintain documentation to support payroll and equipment costs allocated to the Street Fund.

WE RECOMMEND the Board of Aldermen:

- A. Review and approve the expenditure 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.
- B.1. Ensure that all expenditures are a prudent use of taxpayers dollars.
 - 2. Discontinue granting one time pay increases to employees.
- C.1. Ensure city personnel submit supporting documentation for all credit card purchases. In addition, the city should establish a credit card policy.
 - 2. Require evidence of receipt of goods or services on each invoice before making payment.
 - 3. Maintain invoices for all petty cash expenditures. In addition, a ledger should be maintained documenting all petty cash transactions, and the petty cash fund should be periodically counted and reconciled to the ledger balance by an independent person.
- D. Ensure the city enters into formal written contracts for services rendered or obtained.
- E. Ensure all expenditures are properly allocated to the various funds and are supported by adequate documentation.

AUDITEE'S RESPONSE

- A. *Since October of 2006, all bills are presented for approval at City meetings and signed off on by the Board of Aldermen before being paid, except refunds of court bonds, water bill deposits, and payroll tax deposits. The signed list is kept on file at City Hall.*
- B.1. *The City will no longer pay for any Christmas party costs or flowers/plants for funerals.*
 - 2. *The City will no longer grant a one time pay increase.*

- C.1. *A credit card policy will be investigated and instituted. The expected date of this policy will be April, 2007. All approved supporting documentation will be included with all credit card bills before payment.*
- 2. *All invoices will be approved by the appropriate supervisor before payment.*
- 3. *Invoices and a ledger will be kept for all disbursements from the petty cash fund. The City Clerk will perform a reconciliation of the ledger to the fund periodically. The fund is already counted on a daily basis.*
- D. *A formal written contract will be requested and received for services rendered or obtained before payment is made. A follow up of where and how the money was spent by the organization will be required.*
- E. *The City will perform a study to see how the equipment is being used and how much time each employee is spending in each fund to determine the percentage split for equipment and wages.*

10.	Capital Assets
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The city has not prepared and maintained permanent, detailed property records for capital assets, including equipment, and furniture owned by the city. Also, annual physical inventories are not performed and additions to the capital asset records are not reconciled to purchases.

Property records for capital assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage. To develop appropriate records and procedures for capital 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, reconcile those purchases to additions, and periodically perform physical inventories and compare to the detailed records.

WE RECOMMEND the Board of Aldermen require property records to be maintained for capital 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 and capital asset additions should be reconciled to purchases.

AUDITEE’S RESPONSE

The City has already started the process of tagging assets and keeping a master list. The City will check with other cities to find a model policy for capital assets. Estimated completion of this

is unknown, but will be targeted for April of 2007. Annual physical inventories will be done starting in 2007.

11.

Municipal Court

The Court Clerk does not make deposits on a timely basis and checks and money orders are not endorsed immediately upon receipt. In addition, the City Clerk does not account for the numerical sequence of the receipt slips transmitted by the Court Clerk.

- A. Deposits are not made in a timely manner. The Court Clerk deposits court monies into the City's bank account approximately once a week. A cash count, performed on August 17, 2005, showed over six working days of undeposited collections, totaling approximately \$4,028 and including approximately \$639 in cash. In addition, checks and money orders are not restrictively endorsed immediately upon receipt.

To adequately safeguard against theft or misuse of funds and to provide assurance that all receipts are deposited, all receipts should be deposited intact on a timely basis. In addition, checks and money orders should be restrictively endorsed immediately upon receipt. Deposits should be more frequent if significant amounts of cash are collected.

- B. The city does not account for the numerical sequence of the receipt slips transmitted by the Court Clerk. At the end of the month, the Court Clerk files a copy of her receipt ledger with the City Clerk. The City Clerk does not account for the numerical sequence of the court's receipt slips.

Without accounting for prenumbered receipt slips for monies collected, the city cannot ensure all monies collected are ultimately recorded and deposited.

WE RECOMMEND:

- A. The Court Clerk deposit all monies intact on a timely basis, and restrictively endorse checks and money orders immediately upon receipt.
- B. The City Clerk account for the numerical sequence of all receipt slips issued by the court.

AUDITEE'S RESPONSE

The Court Clerk indicated:

- A. *Deposits are now being made more frequently. After the weekly filing of tickets by the Municipal Prosecuting Attorney and entering the citations into the computer, mailed in*

payments are applied and deposited within the next working day after the money has been receipted in the court computer system. Upon receipt of mailed in payments, checks and money orders are now endorsed "For deposit only City of Moscow Mills". (The account number is indicated on the stamp.)

- B. The Court Clerk now supplies a computer generated report to the City Clerk along with all deposit tickets specifying sequenced receipt numbers which includes any receipt numbers that have been voided. This report indicates if cash or check/money orders were collected to ensure all monies are accounted for correctly.*

The City Clerk indicated:

- B. She will account for the numerical sequence of all receipt slips issued by the court.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF MOSCOW MILLS, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Moscow Mills is located in Lincoln County. The city was incorporated in 1821 and is currently a fourth class city. The population of the city in 2000 was 1,742.

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 two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended December 31, 2005, are identified below. The Mayor and the Board of Aldermen are paid \$600 and \$100 per month, respectively. The compensation of these officials is established by ordinance.

<u>Mayor and Board of Aldermen</u>	<u>Dates of Service During the Year Ended December 31, 2005</u>	
Mark Schuette, Mayor (1)	January 2005 – December 2005	
Sheryl Lejeune, Alderman (2)	January 2005 – December 2005	
Barbara Wion, Alderman (3)	January 2005 – December 2005	
Mary Lou Jung, Alderman	January 2005 – December 2005	
Warren Cox, Alderman	January 2005 – December 2005	
		<u>Compensation Paid for the Year Ended December 31, 2005</u>
<u>Other Principal Officials</u>	<u>Dates of Service During the Year Ended December 31, 2005</u>	
Linda McNeil, City Clerk	January 2005 to December 2005	\$ 52,607
Greg Krankel, Maintenance Superintendent	January 2005 to December 2005	59,062
Warren S. Runge, Chief of Police (4)	January 2005 to December 2005	57,604
Debra Freise, Court Clerk	January 2005 to December 2005	37,460

(1) Lawrence Coy was elected to this position in April 2006.

(2) Re-elected in April 2006.

(3) Rhonda Norton was elected to this position in April 2006.

(4) James Partee was appointed Chief of Police in July 2006.

In addition to the officials identified above, the city employed sixteen full-time employees and five part-time employees on December 31, 2005.

Assessed valuations and tax rates for 2005 were as follows:

ASSESSED VALUATIONS

Real estate	\$	13,041,241
Personal property		<u>6,396,345</u>
Total	\$	<u><u>19,437,586</u></u>

TAX RATE(S) PER \$100 ASSESSED VALUATION

		<u>Rate</u>
General Fund	\$	0.2385
General Fund-Waterworks		0.4641

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

		<u>Rate</u>
General	\$	0.010
Streets		0.005

A summary of the city's financial activity for the year ended December 31, 2005, is presented below:

	General	Waterworks	Sewer	Street	Park	Debt Service	Water Repair and Replacement	Sewer Repair and Replacement	Project	Total
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	
RECEIPTS:										
Property taxes	\$ 48,221	92,326	0	0	0	0	0	0	0	140,547
Sales tax	293,445	0	0	141,426	0	0	0	0	0	434,871
Motor fuel and motor vehicle taxes	0	0	0	72,042	0	0	0	0	0	72,042
Water, sewer, and trash collections	0	326,013	296,126	0	0	0	0	0	0	622,139
Utility franchise taxes	67,432	0	0	0	0	0	0	0	0	67,432
Licenses, permits, and other taxes	10,505	0	0	0	0	0	0	0	0	10,505
Interest	592	1,592	852	2,537	19	2,564	701	867	0	9,724
Grants	36,710	0	179,097	0	0	0	0	0	0	215,807
Court fees and fines	279,375	0	0	0	0	0	0	0	0	279,375
Bond issuance	0	0	0	0	0	808,702	0	0	4,306,354	5,115,056
Other	19,706	3,305	2,003	1,648	2,585	0	0	0	0	29,247
Park rental and deposit revenue	0	0	0	0	13,390	0	0	0	0	13,390
Transfers in	0	0	0	0	0	26,803	64,622	107,859	0	199,284
Total Receipts	755,986	423,236	478,078	217,653	15,994	838,069	65,323	108,726	4,306,354	7,209,419
DISBURSEMENTS										
Salaries and fringe benefits	488,008	123,673	107,739	36,778	613	0	0	0	0	756,811
Insurance and bonds	37,206	8,241	7,130	4,674	0	725	0	0	175,350	233,326
Utilities and telephone	18,280	24,067	23,304	21,261	2,774	0	0	0	0	89,686
Uniforms	5,168	2,077	1,386	888	0	0	0	0	0	9,519
Contracted services	40,432	98,802	4,571	0	5,500	0	0	0	10,908	160,213
Building construction, maintenance and rental	9,497	16	16	0	10,144	0	0	0	0	19,673
Equipment purchase and repair	50,932	21,752	28,148	17,026	0	0	810	3,622	0	122,290
Road maintenance and repair	0	0	0	17,866	0	0	0	0	0	17,866
Supplies and postage	51,059	17,922	21,206	4,848	981	0	1,079	0	0	97,095
Attorney fees	42,072	0	0	0	0	0	0	0	0	42,072
Waterworks improvement and extension	21,639	199,663	220,852	0	0	263,143	0	0	1,551,720	2,257,017
Training, dues, election, and publication	16,829	191	336	0	185	0	0	0	0	17,541
Court fees	18,652	0	0	0	0	0	0	0	0	18,652
Other	37,116	3,577	3,021	4,193	440	0	0	0	0	48,347
Transfers out	0	64,622	134,662	0	0	0	0	0	0	199,284
Total disbursements	836,890	564,603	552,371	107,534	20,637	263,868	1,889	3,622	1,737,978	4,089,392
Receipts Over (Under) Disbursements	(80,904)	(141,367)	(74,293)	110,119	(4,643)	574,201	63,434	105,104	2,568,376	3,120,027
Fund balances, January 1	209,413	198,732	241,578	259,571	7,371	79,681	79,429	68,969	0	1,144,744
Fund balances, December 31	\$ 128,509	57,365	167,285	369,690	2,728	653,882	142,863	174,073	2,568,376	4,264,771