



Claire McCaskill

Missouri State Auditor

December 2006

City of Bates City, 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 Bates City, Missouri.

Sewer user fees have not been reassessed since 2003 and both water and sewer user fees have been established without assessing the impact of a capital improvement sales tax on operations. Voters approved a capital improvement sales tax in 1998 to help fund the sewer system and this tax was renewed in 2005 and can now be used to fund the water and sewer system, which were combined. The proceeds of the sales tax were not taken into consideration when establishing the original sewer rate or when increasing water rates in recent years. The city was unable to explain why this sales tax revenue was not used when calculating the new water rates.

Water Fund monies totaling over \$121,000, including over \$65,000 from the Water Replacement Account, were transferred to the General Fund in 2004 without documented approval from the board. No documentation exists explaining the reasons for these transfers and there is no documentation that General Fund monies were used in the construction of the sewer system, which is now combined with the Water Fund. In addition, a replacement account has not been established for the combined Water and Sewer Fund as required by ordinance, and there are differences between the replacement amounts required to be funded by the ordinance and the amounts calculated when the original fee was established.

During 2004 and up until May 2005, the city provided cellular phones to five city employees and the police chief. During 2004, the city paid approximately \$3,000 to two different providers. The April 2005 billing summary of the police chief's cellular bill provided to the city totaled \$270 with only \$65 related to the basic charge. Details were not provided to explain overage and one-time charges and the city did not request additional information before paying the bill.

The city's budgets were not in full compliance with state law and a budget for 2006 was not adopted. In addition, the city approved expenditures in excess of budgeted amounts for the Water and Sewer Fund by \$29,132 during the year ended December 31, 2005 and no mention was made in board minutes as to why the budgeted amounts were exceeded. There is no evidence that a periodic comparison of budget to actual activity is performed, which allowed the overspending to go undetected. Additionally, the City has not published semi-annual financial statements nor filed some annual financial reports required by state law.

City monies are not always deposited intact on a timely basis, bank reconciliations have not been consistently performed, and liability listings for court bonds and water deposits were not maintained.

YELLOW SHEET

Numerous closed meetings were held during 2005 and 2004 and while the open session minutes typically noted the meeting was being closed, the reason and vote were not always documented. Minutes for many of these closed sessions were not maintained.

As of February 28, 2006, the city owed approximately \$23,250 of overdue taxes to the Internal Revenue Service (IRS), which represented tax liabilities, penalties, and interest for prior years. The 941 forms, Employer's Quarterly Federal Tax Return, were not filed timely during prior periods. It appears the tax withholdings during 2004 and 2003 were used to fund General Fund expenditures due to cash flow problems. The city has now paid all but approximately \$800 of the past due tax amount, and has tentatively received an abatement of approximately \$14,000 in penalties and interest from the IRS. These problems appear to have been the result of inadequate supervisory review over payroll.

The state's portion of Crime Victims Compensation (CVC) and Peace Officer Standards and Training Commission (POSTC) fees collected by the municipal court have not been submitted to the state as required. As of March 31, 2006, POSTC fees totaling approximately \$800 and CVC fees totaling approximately \$5,700 were due to the state. In addition, the city has not remitted the county portion of the Domestic Violence Shelter fees collected since January 2004, totaling approximately \$3,150 as of March 30, 2006.

In the Municipal Court, receipts were not issued for some monies received, monies were not deposited intact or timely and ticket processing needs improvement.

Also included in the report are recommendations related to ordinances, property taxes, capital assets, and a street maintenance plan.

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

CITY OF BATES CITY

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Alderman
City of Bates City, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Bates City, Missouri. The city engaged Westbrook & Company, P.C., Certified Public Accountants, to audit the city's financial statements for the year ended December 31, 2005. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. 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 Bates City, Missouri.



Claire McCaskill
State Auditor

May 10, 2006 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Todd M. Schuler, CPA
In-Charge Auditor: Christopher L. Holder

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

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

1.	Water and Sewer System
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Sewer user fees have not been reassessed since 2003, when originally established, and both water and sewer fees have been set without assessing the impact of a capital improvement sales tax on operations. Water Fund monies totaling over \$121,000, including over \$65,000 from the Water Replacement Account, were transferred to the General Fund in 2004 without documented approval from the board. In addition, replacement accounts have not been established for the combined water and sewer account and the amount of funding required for the replacement account from the sewer fee does not agree to the amount calculated with the original rate assessment.

- A. The sewer user fee has not been reassessed since 2003 when the original fee was established. The initial sewer rate study was prepared assuming 114 users, although the actual number of users at the end of 2005 was approximately 140. Annual operating revenue from the combined water and sewer system increased from approximately \$127,000 during 2004 to approximately \$165,000 in 2005, due to a water rate increase enacted in February 2005. This new rate was calculated without including the revenue from a capital improvement sales tax, which totaled approximately \$31,000 in 2004. The half cent capital improvement sales tax to help fund the sewer system was initially approved by voters in 1998 and was renewed in 2005 and can now be used to fund the combined water and sewer system. Water rates were increased again in May 2006, from a minimum charge of \$15 to approximately \$17, based upon the future issuance of bonds to construct a water tower, but again, the proceeds of this sales tax, totaling approximately \$40,000 in 2005, were not taken into consideration when setting water rates. The city was unable to explain why this sales tax revenue was not used when calculating the new water rates. The city needs to perform a thorough review of the cost of providing both water and sewer services, including how the water and sewer sales tax impacts their operations, and set rates appropriately.

Water and sewer fees are user charges which should cover the cost of providing the related services. The city should perform periodic detailed reviews of the costs of providing these services and set rates appropriately. Section 67.042, RSMo, provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of such service.

- B. Waterworks monies totaling over \$121,000, including the balance of the water replacement account, were transferred to the General Fund in 2004. Replacement accounts have not been established for the combined Water and Sewer Fund as required by the water and sewer ordinances. Checks were written in February 2004 from the waterworks account and the water replacement account for \$55,247

and \$65,818, respectively, to the General Fund. There is no documentation in the board minutes explaining the reasons for these transfers or that they were approved by the board, and no monthly or semi annual financial reports showing these disbursements were provided to the board. In addition, city officials were unable to provide any documentation that General Fund monies were used in the construction of the sewer system, which is now combined with the water system.

The ordinance related to the water fund requires \$2,020 annually be placed in the water replacement account, which was closed through the transfer to the General Fund. The city has not determined what the balance of the water replacement account should be, but it appears to be significantly under funded. The sewer ordinance adopted in 2003 requires \$8,000 annually be placed in the sewer replacement account, which has not been established, although the calculations included with the original sewer ordinance only calls for \$4,000 per year. Based on the current ordinance, the sewer replacement account is under funded by approximately \$24,000 at December 31, 2005. Were the city to update their funding requirement by ordinance based on the engineers calculation of \$4,000 per year, the replacement account would be under funded by approximately \$12,000. It appears the ordinance should be updated to reflect the calculation of the annuity before determining the amount required to fully fund the sewer replacement account.

The failure of the city to adequately maintain and fund these accounts could leave the city without funds to pay for a major repair. The city needs to evaluate the transfers made to the General Fund and determine the amount required to fully fund the water and sewer replacement accounts.

WE RECOMMEND the Board of Aldermen:

- A. Review sewer rates to ensure sufficient revenues are generated to adequately maintain the system and continue to periodically review water rates and include all relevant factors when calculating water rates.
- B. Review transfers of utility monies to the General Fund and determine if any of those monies need to be repaid to the Water Fund or water replacement account. In addition, establish a sewer replacement account and ensure the calculated annuity agrees to the funding required by the sewer ordinance.

AUDITEE'S RESPONSE

The city wants to point out and hope everyone understands that many recommendations are only an opinion of the State Auditor. Not all recommendations are required by state statute.

- A. *The City plans to review sewer rates in April 2007 and yearly thereafter and will continue to reassess water rates as necessary. We will ensure the capital improvement sales tax is included in all future calculations.*
- B. *The City will review the transfer of utility monies and take action if necessary. Transfers of these monies happened during the term of the prior Board during the year 2004. The City has now established a sewer replacement fund and we will discuss updating the ordinance for the correct replacement amount and will insure that amount is funded in the future.*

The City believes the \$24,000 sewer replacement account balance cited by the State Auditors is overstated. We plan to reduce the amount required by our ordinance to \$4,000 per year as stated by the calculations provided by our engineer.

2. Expenditures

The numerical sequence of checks issued is not accounted for adequately and an independent comparison of payees and amounts of checks to vendor invoices and the computer system postings is not performed. Some invoices are not marked paid and do not always indicate that goods or services were actually received. In addition, the city has not developed a cellular phone usage policy.

- A. No one independent of the disbursement process is accounting for the numerical sequence of checks issued and ensuring the payees and amounts correspond to a vendor invoice. Starting in January 2006, checks for routine monthly disbursements, such as utility bills, are prepared by the City Clerk and approved by the Mayor. Other bills received are stored in a payable file and prior to the monthly board meeting a listing of the proposed disbursements is prepared and distributed to the board. This listing does not include the check numbers associated with the various disbursements because the checks are not prepared until after the listing is approved. In addition, the disbursements made throughout the month for routine expenditures are not included on the listing provided to the board. Failure to account for the numerical sequence of checks issued could allow an improper payment to occur and go undetected.

The board should be receiving a listing of all disbursements made since the last meeting, by fund, with check numbers and ensure someone independent of the disbursement process is comparing the actual checks to the invoices and information posted to the computer system.

- B. Invoices are not always marked paid or otherwise canceled upon payment and typically do not indicate the goods or services were received. Canceling invoices and all other supporting documentation reduces the likelihood of duplicate payments and requiring acknowledgment of receipt of goods and/or services prior to payment will ensure the city actually received all items paid for.

- C. The city does not have a formal policy regarding cellular phone usage or guidelines to determine whether a cellular phone is needed or beneficial to the city. During 2004 and up until May 2005, the city provided cellular phones to five city employees and the police chief. During 2004, the city paid approximately \$3,000 to two different providers. The police chief's cellular bill was in his name and the detail supporting the billing amount was not always provided to the city. The April 2005 bill totaled approximately \$270, consisting of a basic charge of \$65 for 1000 minutes of coverage, overage charges of \$126, one time charges of \$75, and taxes of \$4. Detail was not provided to explain these overage charges or one time charges and the city did not request additional information before paying the bill.

During 2005, the city did reduce the number of cellular phones and only the Mayor and police chief were provided a cellular phone, but the city has still failed to establish controls over the usage of cellular phones. Lack of a usage policy can lead to excessive and unallowable usage.

While cellular phones can help increase employee productivity, they are also costly. A policy is needed to ensure that cellular phones are used only for business purposes. Such a policy should address which employees need a cellular phone, proper use of the phone, and a reimbursement policy if the council authorizes the phone to be used for personal purposes. Effective procedures should be implemented to monitor cellular phone usage and review invoices for propriety.

WE RECOMMEND the Board of Aldermen:

- A. Receive a monthly listing of all disbursement made, listing the payee and check number, and ensure the numerical sequence of checks is accounted for. In addition, an independent person should compare the payee and amount of each check to the vendor invoice and the information posted to the computer system.
- B. Ensure invoices and other supporting documentation are marked paid and receipt of goods and/or services is indicated.
- C. Develop a policy regarding the use of cellular phones, which includes procedures to monitor their use and to periodically assess whether the plan selected meets the needs of employees and is cost effective.

AUDITEE'S RESPONSE

- A. *Since September 2005, the city's procedures require the signatures of two board members on each check and a copy of the check payment stub to be attached to the invoice. In the future, the City will insure an independent person reviews a complete listing of all monthly disbursements with check numbers and amounts and compares this listing to the actual invoices. This listing will be provided to the board at their monthly meetings.*

- B. *Effective September 2005, all invoices have a check stub attached and receipt of goods is indicated.*
- C. *The city has addressed this issue and has significantly reduced the number of cell phones, the amount spent per month, and has established control over their usage. We now pay less than \$100 per month on all cell phones.*

3. Budgets and Financial Reporting

The 2005 and 2004 city budgets were lacking required elements and a budget for 2006 was not adopted. Expenditures exceeded budgeted amounts for the Water and Sewer Fund for the year ended December 31, 2005 and the Board of Alderman does not periodically compare actual revenues and expenditures to the budgeted amounts. Some annual financial reports were not filed with the State Auditor's office in recent years and financial statements are not published semi annually as required by law.

- A. The city's budgets were not in full compliance with state law. The 2004 budget did not include actual receipts and disbursements from the two previous years, and the 2005 and 2004 budgets did not include actual and estimated cash and resources available at the beginning and end of the year or a budget message. In addition, a budget for 2006 was not adopted.

Sections 67.010 through 67.040 RSMo, set specific guidelines as to the format and approval of the annual operating budget and require budgets to be adopted by order, motion, resolution, or ordinance. A complete budget should include the beginning available resources, reasonable estimates of the ending available resources, and comparisons of actual revenues and expenditures for the two preceding fiscal years.

Additionally, Section 67.080, RSMo, provides that no disbursement of public monies shall be made unless it is authorized in the budget. Budgets should be signed or initialed by the board and retained with the official minutes to adequately document the board's approval. To be of maximum benefit to the taxpayers and to properly monitor city activity, the city should adopt the budget prior to the beginning of the fiscal year.

- B. The city approved expenditures in excess of budgeted amounts for the Water and Sewer Fund by \$29,132 during the year ended December 31, 2005. No budget amendments were prepared and no mention was made in board minutes as to why the budgeted amounts were exceeded. In addition, there is no evidence that a periodic comparison of budget to actual activity is performed, which allowed the overspending to go undetected.

Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted. If there are valid reasons which necessitate excess

disbursements, a resolution should be adopted by the governing body setting forth the amount of the budget increase and the facts and reasons for the increase. Budgets are a planning tool and should serve as a guide throughout the year to monitor revenues and disbursements. A periodic comparison of budgeted versus actual receipts and disbursements is necessary to properly monitor the financial condition of each city fund.

- C. Annual financial reports are not always filed with the State Auditor's office as required by state law. Audits for the years ended December 31, 2005 and 2004 were submitted in 2006, but no audits or financial reports had been filed for previous years, although audits were performed. 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.
- D. The City has not published semi-annual financial statements as required by state law. A financial statement is published in July each year covering the preceding six month period, but a statement is not prepared for the last half of the year and published as required. 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.

WE RECOMMEND the Board of Aldermen:

- A. Prepare annual budgets in accordance with state law.
- B. Ensure actual disbursements do not exceed budgeted amounts. If circumstances require disbursements in excess of amounts budgeted, a formal resolution should be adopted authorizing the additional disbursements and documenting the reasons for such. The Board should require complete information regarding the financial position of the city, including balances of funds held by the city and a comparison of budgeted and actual receipts and disbursements to date be presented each month.
- C. Submit annual reports of financial transactions to the State Auditor's office as required by state law.
- D. Publish semi-annual financial statements as required by state law.

AUDITEE'S RESPONSE

- A. *The Board plans to adopt a 2007 budget according to state law.*
- B. *Once a budget is prepared and approved, the board will monitor expenses closely.*

C. *The current Board of Alderman, which was elected to office in April 2005, and the current City Clerk, undertook a project to get the audits performed and insured these were filed by state law.*

D. *The city will publish financial statements beginning in 2007.*

4. Accounting Controls

Monies received are not deposited intact on a timely basis, bank reconciliations have not been performed timely and open items listings for court bonds and water deposits were not maintained.

A. Monies received are not always deposited intact on a timely basis. Deposits are typically made weekly. Utility monies totaling \$2,314 were counted on March 22, 2006 which included \$143 in cash being held as an overage dating to January 2006 and numerous checks held from 6 to 8 business days before being deposited on March 24, 2006. General Fund receipts totaling \$498 were counted on the same day, which revealed \$6 being held as an overage and cash and checks which had been on hand for up to 12 business days at the time of our cash count.

To adequately account for collections and reduce the risk of loss or misuse of funds, deposits should be made intact on a timely basis. Large amounts of cash collections would indicate the need for more frequent deposits.

B. Bank reconciliations have not been consistently performed for the various accounts maintained by the city prior to September 2005. The city undertook a project during late 2005 to update their financial records and bank reconciliations and started using a new accounting program. Data from 2005 and 2004 were entered into the new computer program and the City Clerk prepared bank reconciliations for those two years for all city accounts in late 2005.

Monthly bank reconciliations are necessary to ensure bank activity and accounting records are in agreement, to detect and correct errors timely, and to allow old outstanding checks to be resolved more timely.

C. Open items listings for court bonds and water deposits were not maintained. In conjunction with their financial statement audit for the year ended December 31, 2004, performed in early 2006, the city's private auditor requested an open items listing be prepared for court bonds and water deposits. The City Clerk was able to prepare these listings and reconcile them to the balances of those bank accounts.

Reconciling the balances to an open items listing is necessary to ensure underlying records are in balance and that sufficient cash is available to pay all liabilities.

WE RECOMMEND the Board of Aldermen:

- A. Ensure collections are deposited intact on a timely basis.
- B. Ensure bank reconciliations are prepared on a monthly basis for each account.
- C. Ensure open items listings are prepared monthly and that they are reconciled to the account balances.

AUDITEE'S RESPONSE

- A. *The city will make timely deposits in the future.*
- B&C. *These have been implemented.*

5. Minutes and Ordinances

Minutes are not taken for some closed sessions, reasons for closing meetings and the corresponding vote to close the meeting are not always documented, and some minutes were not signed by the City Clerk and the Mayor. Additionally, an ordinance establishing the compensation of the City Clerk and other employees or the term of office of the City Clerk has not been established as required.

- A. Reasons for closing meetings and the corresponding vote to close the meeting are not always documented and minutes of closed meetings held by the Board of Alderman are not always taken. In addition, board minutes are not always signed by the City Clerk and the Mayor to attest to their accuracy and completeness.

Numerous closed meetings were held during 2005 and 2004 and while the open session minutes typically noted the meeting was being closed, the reason and vote were not always documented. Minutes for many of these closed sessions were not maintained. In addition, while the City Clerk and Mayor typically sign the minutes, we identified minutes for several meetings which were not signed.

The Sunshine Law, Chapter 610, RSMo, states the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session and requires minutes be kept for all closed meetings. In addition, the Sunshine Law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote. The minutes should provide sufficient details of discussions to demonstrate compliance with statutory provisions and support important decisions made. In addition, minutes should be signed by the City Clerk and Mayor to show that the minutes have been reviewed and accurately reflect the discussions held and actions taken in the previous meeting.

- B. The city has not established an ordinance for compensation of the City Clerk and other city employees or the term of office for the City Clerk. Section 79.270, RSMo, provides that city officials and employee salaries be set by ordinance. In addition, Section 79.320, RSMo, requires the duties and term of office of the city clerk be fixed by ordinance. Furthermore, Section 79.270, RSMo, provides that "...the salary of an officer shall not be changed during the time for which he was elected or appointed." Thus, the term of office is significant in determining when pay increases are allowable under state law.

WE RECOMMEND the Board of Aldermen:

- A. Ensure the vote to close a session is documented in open minutes, along with the reason for closing the session and minutes are taken for all closed sessions. In addition, minutes should be signed to attest to their accuracy.
- B. Establish the compensation of city officers and employees by ordinance. In addition, the term of office for appointed officials should be set by ordinance.

AUDITEE'S RESPONSE

- A. *These recommendations were implemented during 2006..*
- B. *The city will discuss these actions with our attorney and take action on these issues in 2007.*

6. Property Taxes

The city's property tax books are prepared by the county and forwarded to the City Collector to be mailed to residents. No one checks the property tax calculations or the tax book totals prior to being turned over to the City Collector. In addition, the City Collector does not prepare monthly reports of collections or an annual summary of total property tax collections and delinquent taxes to ensure these amounts agree to the total tax book charges. At the request of the city's private auditor, the City Collector prepared a summary of charges and collections for 2005. Property taxes totaling \$7,296 were received during 2005.

Verification of tax book information and totals is necessary to ensure the amount of taxes charged to the City Collector is complete and accurate. A detailed annual report would help provide assurance taxes have been properly collected, written off, or determined to be delinquent. Such a report would summarize all taxes charged to the City Collector, monthly collections, delinquent credits, abatements and additions, and protested amounts.

WE RECOMMEND the Board of Aldermen require the annual property tax book to be reviewed and the totals verified before being given to the City Collector. The board

should also require the City Collector to prepare an annual summary which reconciles total property tax collections, delinquencies, and charges.

AUDITEE'S RESPONSE

The City is already reviewing the property tax book and verifying totals as of the 2006 tax year. We will insure an annual summary of tax collections for 2006 is prepared at the end of the tax year.

7.

Capital Assets

Capital assets records have not been updated since 2004 and annual physical inventories of capital assets have not been performed. Additionally, usage and fuel logs maintained for city vehicles are not adequately reviewed by city personnel or the Board of Alderman.

- A. The city has not updated permanent, detailed property records for capital assets, including the cost of land, buildings, 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. City personnel initially indicated the city maintained no capital asset records, but later located a property listing prepared in October 2004. This listing lacked the original cost or other values for any of the assets listed.

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

- B. While usage logs are maintained for the city's vehicles and a fuel log is maintained and submitted to the City Clerk monthly, these logs are not reviewed by the Police Chief or Board of Alderman. The city spent approximately \$10,000 on fuel purchases during 2005.

The city owns three vehicles used for law enforcement purposes. Fuel is purchased through a charge account with a local gas station and officers are required to record the date of each fuel purchase, along with the cost per gallon, vehicle number, officer number, gallons purchased, and mileage. A copy of this fuel log is submitted to the city with the monthly fuel bill, but the log is not

reviewed for reasonableness by city officials or compared to the usage logs maintained. Without adequately reviewing usage and fuel logs, the city cannot effectively monitor that vehicles are used for official business only, that maintenance and fuel costs for vehicles are reasonable, and that fuel and maintenance billings to the city represent legitimate and appropriate charges.

Usage, fuel and maintenance logs are necessary to document appropriate use of the vehicles and to support fuel and other charges. The logs should include the purpose and destination of each trip, beginning and ending odometer readings or hours of usage as applicable, and all operation and maintenance costs. These logs should be reviewed by a supervisor to ensure vehicles and equipment are used only for city business, are being properly utilized, and help identify vehicles that should be replaced. Information on the logs should be periodically reconciled to applicable expenditure records to help identify and prevent inappropriate fuel purchases or other maintenance and operating charges. These logs should also be periodically reviewed by the Board of Alderman.

WE RECOMMEND the Board of Alderman:

- A. Update property records 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.
- B. Ensure proper reviews and reconciliations are performed of the usage and fuel logs maintained for city vehicles.

AUDITEE'S RESPONSE

- A. *The city is in the process of implementing this and will insure annual physical inventories are done in the future.*
- B. *The city implemented controls over fuel purchases in 2006.*

8. Payroll

Prior to December 2005, the city had not developed procedures to ensure the timely preparation of payroll tax returns and payment of payroll taxes to the IRS. As of February 28, 2006, the city owed approximately \$23,250 of overdue taxes to the Internal Revenue Service (IRS), which represented tax liabilities, penalties, and interest for 2005, 2004, and 2003. The 941 forms, Employer's Quarterly Federal Tax Return, were not filed timely during this period. The 941 forms for January 2003 through September 2004 were filed and paid in December 2004. Forms for October 2004 through December 2005 were not filed until December 2005 and the required payments were not submitted with the forms. The city requested a review of their case by the IRS to determine if penalties

and interest could be waived on the overdue payments. It appears the tax withholdings during 2004 and 2003 were used to fund General Fund expenditures due to cash flow problems, rather than being submitted to the IRS as required. The city has now paid all past due tax amounts, with the exception of approximately \$800, and has tentatively received an abatement of approximately \$14,000 in penalties and interest by the IRS. The above problems appear to have been the result of inadequate supervisory review over payroll.

The Internal Revenue Code requires Form 941 to be filed with the IRS on a quarterly basis along with payment of Social Security and Medicare taxes withheld from the employee and the employer's share, as well as federal income tax withheld. Good business practices require accurate and timely payments of payroll taxes. Failure to make timely payments can result in unnecessary penalties and interest.

WE RECOMMEND the Board of Aldermen ensure 941 forms are filed and payroll taxes are remitted on a timely basis for any wages or salaries paid and develop a plan to pay overdue taxes to the IRS.

AUDITEE'S RESPONSE

All taxes and interest have been paid. Form 941 has been filed timely since December 2005.

9.

Municipal Court

The city is delinquent in paying over Crime Victims Compensation (CVC) and Peace Officer Standards and Training Commission (POSTC) fees collected by the court to the state, and domestic violence shelter fees to the county. Receipt slips are not issued for some monies received, the composition of receipts is not reconciled to deposits, and monies received are not deposited intact on a timely basis. Records of convictions were not properly forwarded to the Missouri State Highway Patrol (MSHP) for assessments of points on licenses and neither the police department nor the court adequately account for the numerical sequence of all traffic tickets issued. In addition, some tickets filed and prosecuted were not signed or initialed by the Prosecuting Attorney and the Court Clerk maintains a signature stamp, which she is authorized to use without the approval of the Prosecuting Attorney. The number and variety of internal control weaknesses that exist in the municipal court cast doubt on their ability to properly account for all tickets and monies processed through the court.

A. The state's portion of the CVC and the POSTC fees collected by the court have not been submitted to the state of Missouri on a monthly basis, as required. As of March 31, 2006, POSTC fees totaling approximately \$800 and CVC fees totaling approximately \$5,700 were due to the state. The City Clerk indicated the city has begun remitting the current fees collected but have not paid the past due amounts due to a lack of funds. In addition, the city has not remitted the county portion of the Domestic Violence Shelter fees collected since January 2004, totaling

approximately \$3,150. Apparently the city has made arrangements with the county to repay these past due amounts.

Section 595.045, RSMo, requires 95 percent of the CVC fees be paid to the state, and Chapter 488, RSMo and Supreme Court Administration Rule 21 provides that the CVC and POSTC fees should be disbursed to the state on a monthly basis. Section 488.607 RSMo, requires domestic violence fees collected be disbursed to provide for operating expenses for shelters for battered persons.

- B. Receipt slips are not issued for some monies received. A deposit made on March 23, 2006 for \$6,344 included \$325 in cash which could not be traced to a receipt slip. In addition, approximately \$113 in cash was withheld from this deposit and identified as an overage by the Court Clerk. These type problems are not identified because the composition of receipt slips issued is not compared to deposits. Having an independent person review the composition of receipts compared to the deposit amount would help detect discrepancies such as those noted above and allows the court to investigate the difference prior to the deposit being made. Without issuing and accounting for prenumbered receipt slips for all monies collected, including the method of payment, the court cannot ensure all monies collected are ultimately recorded and deposited.
- C. Monies received are not deposited intact on a timely basis. The court clerk typically makes weekly deposits. A cash count performed on March 22, 2006 revealed three checks, totaling \$325, which had been on hand for a week and cash totaling over \$3,500 was on hand, even though a deposit was made on March 21, 2006.

To adequately account for collections and reduce the risk of loss or misuse of funds, prenumbered receipt slips should be issued for all monies received immediately upon receipt. The receipt slips should indicate the method of payment (i.e. cash, checks, or money orders), the receipt slip numbers should be accounted for, and the composition should be reconciled to the bank deposits.

- D. The municipal division did not forward required records of convictions on traffic offenses to the Missouri State Highway Patrol (MSHP). The current Court Clerk indicated she has not been forwarding the required tickets to the MSHP since taking over the position in August 2005, and was unsure if the prior Court Clerk was remitting required records. Hundreds of tickets have been processed by the court since August 2005. Section 302.225 RSMo, requires any plea or finding of guilty on traffic violations under the laws of the state, county, or municipal ordinance to be forwarded to the MSHP within ten days of the conviction date.
- E. Neither the police department nor the municipal court division adequately account for all traffic tickets and complaint forms issued and the ultimate disposition. The Police Department maintains a log of the ticket books issued to officers; however, a log of the tickets written by police officers is not maintained. The municipal

division has a computer system where all tickets received from the police department are entered. The computer system has the capability to list the tickets in numerical sequence along with their dispositions; however, the Court Clerk does not generate the listing or account for the tickets. It appears there were approximately 1000 tickets issued during 2005 and approximately \$90,000 was paid to the city in traffic fines.

The Court Clerk was unable to locate five traffic tickets selected for testing. Receipt for payment of one of these tickets was located on the computer system, but neither the court or police department had any record of the other four tickets.

Without a proper accounting of the numerical sequence and ultimate disposition of traffic and parking tickets, the police department and the municipal division cannot be assured that all tickets issued are properly submitted to the court. A log listing each ticket number, the date issued, and the violator's name would ensure all tickets issued were submitted to the court for processing, properly voided, or not prosecuted. A record of the ultimate disposition of each ticket should also be maintained to ensure all tickets have been accounted for properly. Tickets that are not processed could result in lost revenue to the city and state.

- F. Traffic tickets and summonses were not always signed by the Prosecuting Attorney and some tickets which were amended were not initialed or signed by the Prosecuting Attorney to indicate he approved this disposition. In addition, the Court Clerk used a signature stamp to stamp the Prosecuting Attorney's signature on some traffic tickets. Using a signature stamp in this manner lessens the controls over having the Prosecuting Attorney sign the traffic tickets and increases the risk of traffic tickets being handled improperly.

Rule 23.01 (a) of the Missouri Rules of Criminal Procedure states the indictment or information for misdemeanors or felonies shall be in writing, signed by the prosecuting attorney, and filed in the court having jurisdiction of the offense. Rule 19.08 of these same rules requires infractions to be subject to the same procedures as the prosecution of misdemeanors. To ensure the proper disposition of all cases has been entered in the court records, the Prosecuting Attorney should sign or initial all tickets and summonses paid at the VB or heard in court and all amended or nolle pros tickets, indicating his approval. In addition, using a signature stamp lessens the controls over having the Prosecuting Attorney sign the traffic tickets and increases the risk of traffic tickets being handled improperly.

WE RECOMMEND the Municipal Court:

- A. Work with the city to ensure all Crime Victims Compensation, Peace Officer Standards and Training Commission, and Domestic Violence fees collected are remitted to the state and county in accordance with state law and on a timely basis.

- B. Issue receipt slips for all monies received and ensure the composition of receipt slips is reconciled to deposits.
- C. Deposit receipts intact daily.
- D. Forward all required records of convictions on traffic offenses to the MSHP within ten days as required by state law.
- E. Work with the Police Department and the Prosecuting Attorney to ensure records are maintained to account for the numerical sequence of all traffic tickets issued, as well as their ultimate disposition.
- F. Require the Prosecuting Attorney to sign all applicable tickets and summonses, including tickets which have been amended. Additionally, the court should discontinue the use of a signature stamp for the Prosecuting Attorney.

AUDITEE'S RESPONSE

- A. *The city has entered into an agreement to pay balances due to the state and county for court fees.*
- B, C
&D. *These have been implemented.*
- E. *The city will discuss this issue with the Police Department and Prosecuting Attorney and determine the actions to be taken.*
- F. *The city is implementing better control over court procedures. The city will take the State Auditor's opinion under advisement.*

10.	Street Maintenance Plan
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A formal street maintenance plan for the city streets has not been prepared annually. A street maintenance plan should be prepared in conjunction with the annual budget and include a description of the streets to be worked on, the type of work to be performed, a cost estimate, the dates such work could begin, and any other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents. The city spent approximately \$24,000 on street maintenance during the year ended December 31, 2005.

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

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

AUDITEE'S RESPONSE

The City plans to hold a public hearing regarding street maintenance.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

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

The city of Bates City is located in Lafayette County. The city was incorporated in 1904 and is currently a fourth class city. The population of the city in 2000 was 245.

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 is paid \$100 per month and Board of Alderman \$65 per month. The compensation of these officials is established by ordinance.

Mayor and Board of Alderman	Dates of Service During the Year Ended December 31, 2005	Compensation Paid for the Year Ended December 31, 2005
Diana Rickey, Mayor	April 2005 – December 2005	\$ 800
Shawn Fox, Mayor	January 2005 – April 2005	400
Forrest Jeffery, Alderman (1)	January 2005 – December 2005	715
Donald McCarty, Alderman (2)	January 2005 – December 2005	780
Doug Rickey, Alderman	April 2005 – December 2005	520
Roy Trussell, Alderman	January 2005 – April 2005	260
Don White, Alderman	April 2005 – December 2005	520
Angela Hilbrenner, Alderman	January 2005 – April 2005	260

Other Principal Officials	Dates of Service During the Year Ended December 31, 2005	Compensation Paid for the Year Ended December 31, 2005
Tammy Engen, City Clerk/Treasurer	September 2005 – December 2005	\$ 6,576
Melissa Hays, City Clerk/Treasurer	January 2005 – August 2005	19,313
Sandy O'Donnell, City Collector/Court Clerk (3)	January 2005 – December 2005	18,393
Garry Helm, Municipal Judge	January 2005 – December 2005	2,700
Brent Teichman, City Attorney/ Prosecuting Attorney	April 2005 – December 2005	6,660
John Jack, City Attorney/Prosecuting Attorney	January 2005 – April 2005	1,635
Timothy McCorkle, Police Chief (4)	January 2005 – December 2005	30,153
Stacie Herrington, Water Superintendent	January 2005 – April 2005	12,060

- (1) Garry Johnson elected to this seat in April 2006.
- (2) Re-elected in April 2006.
- (3) Employment was terminated by the city in May 2006. Cathy Dandurand was appointed to fill this position in August 2006.
- (4) Replaced by Rusty Nicholson in October 2006.

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

Assessed valuations and tax rates for 2005 were as follows:

ASSESSED VALUATIONS

Real estate	\$ 1,959,963
Personal property	492,297
Railroad and utility	120,101
Total	<u>\$ 2,572,361</u>

TAX RATE PER \$100 ASSESSED VALUATION

	<u>Rate</u>
General Fund	\$.3159

TAX RATES PER \$1 OF RETAIL SALES

	<u>Rate</u>
General	\$.0100
Capital Improvement *	.0050

- * The citizens voted in April 2005 to authorize the Capital Improvement sales tax for the combined water and sewer system.