



**Susan Montee, CPA**  
Missouri State Auditor

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May 2007

**City of Lake Ozark, Missouri**

**Year Ended December 31, 2005**



Office Of  
Missouri State Auditor  
Susan Montee, CPA

May 2007

The following findings were included in our audit report on the City of Lake Ozark, Missouri.

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Many of the findings in this audit are similar to those included in our previous audit of the City of Lake Ozark (Report No. 2000-115). The city has made very little progress to improve accountability over city resources.

From 2004 to 2005 the City of Lake Ozark's overall financial liability increased approximately 43 percent, and was used to refinance past debt and finance both expansion of the city's water and sewer system and the Osage National Neighborhood Improvement District (NID) project. The city also entered into a \$5.6 million lease purchase agreement without soliciting proposals from various entities. In addition, the city issued revenue bonds in 2002 which require the establishment of several separate accounts and funding of these accounts with transfers from water operating revenues. However, the city does not have sufficient cash in the Water Funds to meet and fund these required accounts. Also, no formal plans were prepared by the city for the purchase and development of land for a city park or to fund the transportation enhancement (strip) project with costs of approximately \$619,000 in engineering and construction.

The City of Lake Ozark has established five NIDs totaling approximately \$2.8 million. Our review of these projects noted:

- The city did not have supporting documentation or an explanation of how assessments were calculated for property owners within the Osage National NID.
- Adequate records of assessments, collections and balances due by property owners are not maintained by the city.
- The city has not established separate funds and bank accounts for each NID or procedures to ensure NID activity is accurately reported.
- The city does not appear to be charging a sufficient amount of interest to cover the interest due on the bonds related to the Knox Point NID.

The city has not established procedures to ensure expenditures are properly allocated among the funds and to ensure restricted revenues are expended only for their intended purpose. For example, the city made transfers from the Transportation, Sewer, and Water Funds to the General fund to cover various administrative expenses, including salaries, but had no documentation to support these allocations.

Inadequate controls and oversight over the collection of various licenses and permits resulted in \$1,265 of missing monies to go undetected. Amounts recorded on receipt slips and other documents did not agree to the amounts recorded on deposit summary reports

(over)

YELLOW SHEET

and deposit slips prepared by the accounting clerk. If these items had been reviewed by another person, these discrepancies may have been detected.

Significant weaknesses were identified concerning the city's handling of receipts including lack of receipt slips, untimely posting of receipts, and untimely deposits. The city has accumulated large balances in due to/from accounts, and wrote off some of these balances in 2004 without adequate supporting documentation.

Financial statements prepared and published by the city were incomplete and inaccurate, some financial statements were not published, and improvements are needed in preparation of the city's budgets.

The city's bidding procedures are in need of improvement. The city did not solicit proposals for some professional services, and entered into a long term contract for residential and commercial trash services without knowing the value of the contract.

Improvement is needed in city procedures for reviewing and approving invoices for payment. Some city expenditures did not appear to be a prudent use of public funds and some employees were paid bonuses. Inadequate recordkeeping allowed duplicate and untimely payments of some invoices to be made.

Many significant problems were identified in the control procedures used by the municipal court to account for court receipts including inadequate segregation of duties, improper accounting for bond forms and police department receipts, untimely collection of bond and police department monies, and untimely deposits. Most of these conditions have been addressed to the court numerous times, but the court has repeatedly failed to take any corrective action.

Also included in the report are recommendations related to cell phones and credit cards, official and employee benefits/vehicles and equipment, payroll, utility system controls and procedures, property tax procedures, closed meetings and ordinances, capital assets, and evidence and seized property controls.

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CITY OF LAKE OZARK, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT .....	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS .....	4-60
<u>Number</u>	<u>Description</u>
1.	Financial Obligations and Planning.....5
2.	Neighborhood Improvement Districts (NIDs).....9
3.	Restricted Revenues.....14
4.	Missing Cash Receipts.....16
5.	Accounting Controls.....17
6.	Financial Statements, Budgets, and Planning.....23
7.	Bidding Procedures.....25
8.	Expenditures.....27
9.	Credit Cards and Cell Phone Procedures.....32
10.	Benefits Provided to Officials/Employees and Vehicles and Equipment..35
11.	Payroll.....38
12.	Utility System Controls and Procedures.....42
13.	Property Tax Procedures.....47
14.	Closed Meetings, Ordinances and Resolutions.....50
15.	Capital Assets.....52
16.	Municipal Court.....53
17.	Evidence and Seized Property Controls and Procedures.....59
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	61-64

STATE AUDITOR'S REPORT



**SUSAN MONTEE, CPA**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
City of Lake Ozark, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Lake Ozark. The city engaged Graves and Associates, Certified Public Accountants (CPAs), 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 work for this audit was substantially completed by February 2007.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and its audited financial report 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 Lake Ozark.



Susan Montee, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA  
Audit Manager: Pamela Allison Tillery, CPA  
In-Charge Auditor: Roberta Bledsoe

MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

CITY OF LAKE OZARK  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

<b>1. Financial Obligations and Planning</b>
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The City of Lake Ozark's financial obligations have risen significantly over the last several years; however, the city does not have a debt policy. The city entered into a \$5.6 million lease purchase agreement in June 2005 without soliciting proposals from various entities. The lease purchase was used to refinance sewer revenue bonds and to finance a utility expansion project. The city has not properly funded accounts as required by water revenue bond covenants, and it is questionable whether the city has sufficient cash in the Water Fund to meet and fund these required reserve accounts. No formal plans were prepared by the city for the purchase and development of land as a city park and for funding of the strip enhancement project.

- A. The city does not have a debt policy; however, the city'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 43 percent from \$7.7 million to \$10.9 million. Most of this increase was used to refinance past debt and finance some expansion of the city's water and sewer system through the use of a lease purchase agreement and to finance the Osage National NID project through the use of a general obligation bond.

The city should develop a debt policy which would help ensure the city is maintaining adequate financial stability and that the repayment method for any new debt is considered.

- B. The city entered into a \$5.6 million lease purchase agreement in June 2005 without soliciting proposals from various entities. The City Administrator and Mayor indicated the city was forced into making a quick decision because it was unable to pay its annual sewer bond payment, and therefore did not have time to properly solicit proposals. The lease purchase was used to retire two sewer revenue bonds outstanding in the principal amounts of \$4,090,000 and \$289,000 and to finance improvements in the north shore area utility expansion project. If the city follows the lease payment schedules, the city will pay approximately \$2.1 million in interest and \$644,122 in fees over the life of the 20 year lease.

The Board of Aldermen should always seek proposals for professional services and document the basis for the selection to ensure the city is receiving quality service at a reasonable price.

- C. The city issued revenue bonds in 2002 for water improvements. The revenue bond covenant requires the city to establish several separate accounts and to fund

these accounts with transfers from water operating revenues. As of December 31, 2005, the city had not properly funded the accounts as follows:

1. City ordinance creates a Debt Service Reserve Fund that will be funded in the amount of \$100,000 from the proceeds of the bonds at the time of issuance to prevent any default in the payment of interest on or principal of the bonds. The city has not properly funded this account. At December 31, 2005 the balance of this account was only \$1,408 resulting in a funding deficiency of \$98,592.
2. Bond principal payments are due annually and interest payments are due semi-annually. The Bond Principal and Interest Account is required to be funded by monthly transfers of not less than 1/12 of the amount of principal and 1/6 of the amount of interest due on the next payment dates. The city is not funding this account on a monthly basis. At December 31, 2005, the balance required in this account was \$82,278 while the actual balance was only \$1,461 resulting in a funding deficiency of \$80,817.
3. The Depreciation and Replacement Fund is required to be funded by monthly transfers of \$1,500 beginning on April 1, 2005 up to an aggregate amount of \$100,000. These monies are to be used, if no other funds are available, for paying the cost of emergency repairs and replacements to the system. At December 31, 2005, the balance required in this account was \$13,500; however, the fund had not been established at December 31, 2005.

The city does not have sufficient cash in the Water Funds to meet and fund these required reserve accounts. At March 31, 2007, the city only had \$155,083 in the Water Funds while these required reserve accounts total over \$195,000. The city needs to properly fund these reserve accounts and record them as restricted cash on the city's financial statements, as required in the bond covenant. In addition, the Board of Aldermen should closely monitor the financial condition of the Water Fund, and develop a long-term plan to operate within its available resources by reducing or eliminating operating losses.

- D. No formal plans were prepared by the city for the purchase and development of land as a city park. In 2000, the city obtained an appraisal of the land which valued the property at \$630,000. In January 2001, the city purchased the land for \$450,000 to be used as a city park; however, this land was not developed or used in this manner and remained vacant until 2005, when the city sold an easement and the land for \$27,000 and \$460,000, respectively. The original purchase agreement also required the city to provide the seller with an IRS Form 8283-Noncash Charitable Contribution (for the excess of market value over the sales price of the property or \$180,000); however the city failed to retain a copy of this IRS form for their records.

The city again had the property appraised in 2005 and the property was valued at \$461,000, or \$169,000 less than the original appraisal. The city could provide no explanation for this decrease in the property value.

The city also incurred costs of over \$71,500 for interest, early pay off penalties, settlement charges, appraisal fees, and Department of Natural Resources fines related to the park. As a result, the purchase and sale of the park has cost the city \$34,500. In addition, the city is involved in a pending lawsuit, (an individual sustained injuries while at the park) which may result in further costs to the city.

Good business practices require that adequate planning be performed and public input be obtained prior to approving a significant capital expenditure such as this. In addition, to ensure transactions are properly represented by all parties involved, the city should retain all documents such as IRS forms related to the sale of real estate.

- E. No formal plans were prepared by the city to fund the transportation enhancement project, which cost the city approximately \$619,000 in engineering and construction. This project included the construction of sidewalks, crosswalks, and landscaping on Old Route 54 Highway from Ballinger Road to Bagnell Dam. The Board of Aldermen entered into a grant agreement for \$333,472 with Missouri Department of Transportation (MoDOT) for funding of construction of this project in July 2005. The remaining funding \$285,528 for this project was paid primarily from the General Fund.

The September 2005 board minutes indicate questions over whether the board wanted to continue with this project. In those minutes the mayor stated "we need to accept the low bid for construction totaling \$537,785 or the city would have to pay \$20,790 back to MoDOT." Board Members expressed concerns regarding how the city was going to fund the project because monies were not available in the Transportation Fund. The board subsequently approved the low bid of \$537,785 for construction of this project through a tie vote broken by the mayor. However, as the mayor also owns property included in the project, it is questionable whether city ordinance 112.020 was violated. That ordinance states the Mayor or any member of the Board of Aldermen who has a substantial personal or private interest, as defined by State law, in any bill shall disclose on the records of the Board of Aldermen the nature of his interest and shall disqualify himself from voting on any matters relating to this interest. Citizen concern was voiced because of the appearance of a possible conflict.

Good business practices require that adequate planning be performed, funding sources considered, and public input be obtained prior to approving a significant capital expenditure such as this. In addition, documentation of the planning process further helps to avoid confusion or misunderstandings and to inform citizens. Further, city officials should avoid any type of involvement in city decisions that relate to themselves.

The city's increased debt, questionable planning, inadequate Neighborhood Improvement District (NID) records and procedures (See MAR No. 2), and improper uses of restricted monies (See MAR No. 3) have all contributed to a potentially serious financial situation for the city.

**WE RECOMMEND** the Board of Aldermen:

- A. Develop a debt policy and monitor the overall financial obligations of the city.
- B. Solicit and document proposals for professional services.
- C. Take action to bring the restricted asset funds up to the balances required by the bond covenants, and closely monitor the financial condition of the Water Fund, and develop a long-term plan to operate within its available resources by reducing or eliminating operating losses.
- D. Ensure future purchases of real property be made only upon the preparation of formal documented plans for its use. In addition, retain all documentation related to the sale of real estate.
- E. Ensure plans for funding future construction projects are formally documented. In addition, avoid transactions that represent actual conflicts of interest or the appearance of conflicts of interest.

**AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

- A. *The City agrees that it has not adopted a formalized debt policy, however, we have addressed our debt liability in Vision 20 and formally adopted strategies to correct the fiscal duress by (1) dedicating the required reserve funds (which has already been partially accomplished); (2) by promoting economic growth to combat the long slide of declining sales tax as a percentage of the budget (which we have made tremendous strides on, in particular the securing of a new four-lane parkway into town and the corresponding retail commercial development; (3) by limiting additional debt; (4) by budgetary discipline; and (5) by “working our way out of it” through the aforementioned methodology.*
- B. *We have solicited Professional Engineering services and will continue to improve in this area on other affected professional services.*
- C. *Addressed in A above, we have already deposited more than required in the principal and interest water bond account, and will be addressing the maintenance reserve fund requirements before this state audit is finalized.*
- D. *We agree as to this being the procedure that will be used henceforth.*

E. *We agree.*

<b>2. Neighborhood Improvement Districts (NIDs)</b>
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Significant problems were identified in the control procedures used by the city related to five NIDs.

The City of Lake Ozark has established five NIDs totaling approximately \$2.8 million, including: the Eagle Crest NID (\$75,331), Roscoe NID (\$58,044), Knox Point NID (\$60,975), W-26 NID (\$96,657), and the Osage National NID (\$2.5 million), pursuant to petitions from the residents within the proposed districts.

The city has issued various general obligation bonds to fund the various projects' construction and is ultimately responsible for the repayment of the bonds; however, the primary source of revenues for bond repayment is the collection of special assessments on properties within the districts. Two payment options were developed by the city allowing property owners to either pay the assessment in one lump sum or allocate the special assessment and related interest costs over a twenty year payment schedule.

Our review of these NID Projects revealed the following concerns:

A. The city did not have supporting documentation or an explanation of how assessments were calculated for property owners within the Osage National NID. Most property owners were assessed \$1,104 annually in 2006 and 2005 for their principal and interest payment. Additionally, the City Clerk failed to assess some property owners and collect NID payments during those years. Without changes, some property owners may be over assessed during the course of the next 20 years.

Based upon information provided by both the city and the Osage National NID, each of the 195 parcels, units, and lots contained in the NID owed a total of \$2.5 million and should have been assessed a principal balance of \$12,821 (\$2.5 million/195). This assessment of principal was to be repaid over 20 years with interest of 5.5 to 6 percent.

The city should review these situations and properly calculate each property owner's assessment and ensure all property owners are properly assessed. Any overpayments should be applied to future balances due.

B. Adequate records of assessments, collections and balances due by property owners are not maintained by the city. For example:

1. Currently, the city utilizes its electronic property tax system to record NID payments; however, the system does not generate collection reports summarizing NID collections. The city also maintains a manual listing of

property owners in each NID, and the City Collector makes notes of payments received; however, it is not complete or maintained in an organized manner. Adequate records and procedures should be established to monitor the collection of NID funds.

2. As a result of the lack of adequate records noted above, the city does not track balances due for each NID or adequately pursue collection of delinquent amounts. At our request, the city prepared a spreadsheet of initial assessments, amounts collected, and balances due for each NID. As of December 31, 2006, over \$27,000 in special assessments charged to property owners were delinquent as follows:

<b>Eagle Crest NID</b>					
<b>Tax Year</b>		<b>Assessment Charged</b>	<b>Amount Paid</b>	<b>Amount Delinquent</b>	<b>Delinquency Rate</b>
2004	\$	3,767	2,624	1,143	31%
2005		3,767	2,431	1,336	36%
2006		3,767	2,673	1,094	29%

<b>Roscoe NID</b>					
<b>Tax Year</b>		<b>Assessment Charged</b>	<b>Amount Paid</b>	<b>Amount Delinquent</b>	<b>Delinquency Rate</b>
2004	\$	2,902	2,723	179	7%
2005		2,902	2,723	179	7%
2006		2,902	1,827	1,075	37%

<b>Knox Point NID</b>					
<b>Tax Year</b>		<b>Assessment Charged</b>	<b>Amount Paid</b>	<b>Amount Delinquent</b>	<b>Delinquency Rate</b>
2004	\$	2,952	2,429	523	18%
2005		3,604	3,246	358	10%
2006		3,604	3,327	277	8%

<b>W-26 NID</b>					
<b>Tax Year</b>		<b>Assessment Charged</b>	<b>Amount Paid</b>	<b>Amount Delinquent</b>	<b>Delinquency Rate</b>
2001	\$	6,444	5,953	491	8%
2002		6,444	5,651	793	13%
2003		6,444	4,849	1,595	25%
2004		6,444	4,746	1,698	27%
2005		6,444	5,534	910	15%
2006		6,444	5,626	818	13%

<b>Osage National NID</b>					
<b>Tax Year</b>		<b>Assessment Charged</b>	<b>Amount Paid</b>	<b>Amount Delinquent</b>	<b>Delinquency Rate</b>
2005	\$	214,056	211,848	2,208	1%
2006		214,056	200,806	13,250	6%

Adequate records should be maintained to monitor delinquent special assessments, and procedures should be adopted to pursue collection of delinquent amounts.

Further, these delinquent special assessments may result in the city not generating enough revenue to pay the required bond payments. The Board of Aldermen have not formally prepared a plan for how future bond payments will be funded. A formal plan should be prepared and include a

description of the bond payments due, an estimate of the amount of special assessment monies to be collected, and an estimate of how much the city will be liable to pay in future bond payments. In addition, the plan should be reviewed and updated periodically.

A formal plan would serve as a useful management tool and provide greater input into the overall obligations of the city. Such a plan provides a means to more effectively monitor and evaluate the amount of special assessment funds collected and how they are handled.

C. The city maintains a separate chart of accounts for the NIDs within the general fund and maintains a separate fund and bank account for the Osage National NID. However, activity of the Osage National NID is not always recorded in the Osage National NID Fund and bank account, and separate funds or bank accounts are not maintained for the remaining four NIDs. In addition, due to the lack of records noted in part B., NID collections are not always properly recorded. We identified the following concerns during our review of the city's accounting records for these five NIDs:

- A W-26 NID bond payment made on September 30, 2006 totaling \$7,203 was erroneously posted to the Knox Point NID accounting category.
- A Knox Point NID bond payment made on January 31, 2006 totaling \$5,486 was erroneously posted to the Roscoe NID accounting category.
- Eagle Crest and Roscoe NID bond payments were commingled in the Roscoe NID accounting category.
- Osage National NID payments totaling \$191,896 were posted to real estate tax accounting category in the city's general fund on February 14, 2006.

Adequate records and procedures should be established to monitor the NID funds, and all NID fund activity should be reviewed by the City Administrator and Board of Aldermen regularly.

D. The City Clerk calculated the assessment against each property for the Knox Point NID, which included an interest rate of only 5%; while the interest rate on the related \$58,000 general obligation bond was 5.6%. The city does not appear to be charging a sufficient amount of interest to cover the interest due on the related bonds. To ensure the city will be able to properly fund the bonds, the city should review the costs of future bond payments and adjust the assessments accordingly.

**WE RECOMMEND** the Board of Aldermen:

A. Ensure that assessments are accurately calculated. Any overpayments should be applied to future balances due.

- B.1. Establish adequate records and procedures to monitor the collection of NID funds.

In addition, records should be maintained to monitor delinquent special assessments, and procedures should be adopted to pursue collection of delinquent amounts.

2. Prepare a formal plan to effectively monitor and evaluate the amount of special assessment funds collected, and how future bond payments will be funded.
- C. Establish adequate records and procedures to monitor the NID funds, and ensure NID bond payments are posted to the correct accounts. In addition, all NID fund activity should be reviewed by the City Administrator and Board of Aldermen regularly.
- D. Ensure that assessments are sufficient to cover the cost of the related bond payments.

### **AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

*A-D. The City agrees that we have not been as professionally proficient or well trained as necessary in the past; however, the City Clerk has already taken corrective action. The City Clerk had relied upon the bond attorney to provide the necessary documentation and professional instruction of how to set rates, and administrate these separate districts; however, the professional documentation was lacking, and accompanied with little or no instruction. Subsequent research on the City Clerk's part, augmented by the City Administrator, has corrected the known problems in these accounts except as to deficiencies in the formation of the NIDs, in that they were not calculated to provide maintenance funds as allowable. The City acknowledges that it needs to formulate practices and procedures to collect delinquent payments on these districts, as well as pass ordinances to allow for that, and to correct any other deficiencies that exist.*

*The City and the City Administrator agree that these accounts should be budgeted separately. As far as the erroneous transactions, City administration has also noted these and instructions were given to correct them. It is stipulated that the City understands and agrees, it is essential that these collections, accounting, depositing and disbursement be tracked and made accurately.*

*The City further realizes that it has to organize better with respect to management of these funds, and be more knowledgeable and accurate in how to assess, limit its liability and budget these funds appropriately. The City agrees that it will correct the insufficiencies associated with these funds.*

**3.****Restricted Revenues**

The city has not established procedures to ensure expenditures are properly allocated among funds and that restricted revenues are expended only for their intended purpose. Law Enforcement Training fees are not properly accounted for separately or maintained in a separate fund, and sewer inspection and user fees are not always deposited into the proper fund.

- A. The city made transfers from the Transportation, Sewer, and Water Funds to the General Fund to cover various administrative expenses (including salaries) incurred in the General Fund. Transfers to the General Fund from the three funds for the year ended December 31, 2005, totaled \$122,000. In addition, as of December 19, 2006, the city had made administrative transfers from the Sewer and Water Funds to the General Fund for the year ended December 31, 2006 totaling \$142,000. The city had no documentation to support these allocations.

In addition, the city pays the Public Works Supervisor's wages and fringe benefit expenses equally from the Transportation, Water, and Sewer Funds, and pays the Public Works Secretary only from the Water Fund. The City Administrator, City Clerk, City Collector, City Treasurer, accounting clerk, and receptionist are paid from the General Fund while some of their duties may involve other funds. Time sheets are prepared by all employees, indicating the total hours worked. However, no documentation is maintained to separately indicate the number of hours worked for transportation, sewer, and water or other activities.

Annual lease payments of \$12,027 and payments for repairs to an excavator totaling \$4,581 were paid from the Sewer and Water Funds, respectively. The Public Works Supervisor indicated the excavator was used by the sewer, water, and transportation departments. The city had no documentation to support the reason why this payment was made from these funds.

The city should properly allocate expenses to the various funds to ensure the water, sewer, and trash rates are sufficient to cover the cost of providing the service without generating profits to subsidize other city services. The use of certain revenues, such as transportation sales taxes and state motor vehicle-related revenues, are limited by state law for specified purposes. Therefore, documentation and proper allocation of expenses is useful for both management and compliance purposes.

- B. Police Officer Standards Training (POST) fees are not properly accounted for separately or maintained in a separate fund. During the year ended December 31, 2005, the city received approximately \$2,600 in training fees and spent approximately \$3,300 on police training, respectively. In addition, according to the city's independent audit report the city had \$30,411 in restricted assets at December 31, 2005 that are also required to be spent on police training. The city

erroneously posted \$1,378 of POST fees received in October 2006, to an equipment expense chart of accounts. Section 590.140, RSMo, requires POST fees to be used only for the training of law enforcement officers. The city should determine law enforcement training fees collected and transfer the fees to a separate Police Officer's Training Fund or maintain a separate accounting of the funds to ensure the fees are used in accordance with state law.

- C. The city charges \$30 for sewer inspections. In some instances these fees were received and deposited into the General Fund. In addition, the city bills the Lake Region Water and Sewer Company each month for sewer services provided; however, the monies received, (over \$5,000 in 2006), are deposited into the water fund. The funds of the city are established as separate accounting entities to account for specific activities of the city. Reflecting revenues in the proper fund is also necessary to accurately determine the results of operations of specific activities, thus, enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure all expenditures are properly allocated to the various funds and the allocations are supported by adequate documentation.
- B. Establish a separate accounting for POST fees to ensure compliance with the Missouri Constitution and state law.
- C. Ensure sewer inspection and user fees are received and deposited into the Sewer Fund.

**AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

- A. *It has been discussed that the appropriate reimbursable expenditures exceed \$250,000 per year. While it might be a better accounting practice to provide a paper trail on these transactions, typically in municipal operations, when the allowed transfer amounts greatly exceed the actual transfers, documentation is not done. The City agrees the public works secretary's salary should be proportional among the three effected funds, however, that proportion would be greater to the water department as she is also the water meter reader for greater than 25 per cent of her time and also handles water related matters as a course of her receptionist/secretary duties. As to documentation, the excavator is a dual use machine used by the two departments and was budgeted correctly.*
- B. *The City agrees that your findings are correct and that we need to do much to correct the court's administration and accounting of funds, including, although not mentioned, in forwarding relevant fees to the state, as well as accurately accounting and depositing in City accounts.*

- C. *If the money for sewer inspections has been deposited in water, it is due to the inaccuracies of the Accounting Clerk (and not caught by supervision). This will be corrected, the City was not aware of this failure. The City agrees as to the accuracy of your pronouncements in the body of the paragraph.*

**4. Missing Cash Receipts**

Inadequate controls and oversight resulted in \$1,265 of missing monies to go undetected.

The city collects fees of approximately \$103,000 related to business licenses, contractor's licenses, liquor licenses, franchise taxes, building permits and other miscellaneous items. These fees are paid primarily by check. Our comparison of fees deposited during the tourist season (April 1 through September 30) showed only .87% of cash deposited in 2006 compared to 2.66% in 2005. Business and liquor licenses are due by July 1 of each year and represent a large portion of these types of fees.

The city's receptionist collects these fees and transmits them to the accounting clerk along with copies of the applicable document (business license, etc), the check received, or the receipt slip issued. The accounting clerk then prepares a deposit summary report and a deposit slip and attaches the copied documents. The city treasurer then deposits the monies into the general bank account. The following table shows, by each deposit summary, the amount of cash receipts that were not deposited:

Deposit date	Cash recorded on receipt slips and copies of documents (business licenses, etc).	Cash recorded on deposit slips and deposited	Unaccounted for cash
June 20, 2006	\$ 173.00	\$ 123.00	\$ 50.00
June 23, 2006	500.00	0	500.00
June 27, 2006	125.00	0	125.00
July 11, 2006	570.00	45.00	525.00
July 18, 2006	67.00	2.00	65.00
<b>Total</b>	<b>1,435.00</b>	<b>170.00</b>	<b>1,265.00</b>

The amounts recorded on receipt slips and other documents did not agree to the amounts recorded on deposit summary reports and deposit slips prepared by the accounting clerk. Some cash recorded on receipt slips and other documents (business licenses, etc.) was not recorded on the deposit summary reports and deposit slips and was not deposited. In addition, a \$50 personal check made payable to the accounting clerk was deposited on July 18, 2006. There was no explanation why such a check was included in a city deposit. Had anyone compared the receipt slips and copies of documents to the information recorded on the deposit summary, deposit slip, and applicable deposit, these discrepancies may have been detected.

These missing funds were not detected on a timely basis due to various internal control weaknesses including little or no review by someone independent of the Accounting Clerk.

**WE RECOMMEND** the Board of Aldermen take the necessary action to recover the missing funds and work with law enforcement officials regarding any criminal prosecution.

**AUDITEE'S RESPONSE**

*The Board of Aldermen indicated that this has been turned over to the city's Prosecuting Attorney.*

<b>5. Accounting Controls</b>
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Significant weaknesses were identified concerning the city's handling of receipts. The city has accumulated large balances in due to/from accounts, and wrote off some of these balances in 2004 without adequate supporting documentation. The city maintains twenty-one bank accounts, does not follow up on old outstanding checks, and does not always properly record and account for voided checks. Controls and procedures over the city's petty cash and change funds need improvement, and some officials and employees were not adequately bonded.

A. The city bills and collects various types of receipts, including business and contractor's licenses, building permits, and other miscellaneous charges such as sign permits, tax increment financing plan books, Planning and Zoning (P&Z) books, research, and copies. Procedures related to the handling of these fees need improvement. For example:

- There is no documentation to indicate that anyone reconciles business and contractor's licenses and building permits issued and collected, or miscellaneous charges to amounts deposited. To ensure fees for all licenses and permits and other miscellaneous charges are properly collected, recorded, and deposited, the licenses and permits issued should be periodically compared to amounts recorded and deposited.
- Although business licenses are prenumbered, licenses are not always issued in sequential order. To provide additional assurance all monies are properly collected, recorded, and deposited, the numerical sequence of business licenses should be accounted for properly.
- The city has not established written policies and procedures related to issuing building permits and performing building inspections. To ensure building applications are properly processed and approved and building inspections are properly performed, the board should establish an ordinance which defines the

procedures and requirements for handling and approving building permit applications, issuing building permits, and performing building inspections.

B. The following concerns were noted related to receipts:

- Receipt slips are only issued for cash received, are not specifically printed for the city, and are not consecutively numbered. To properly account for all receipts and ensure they are properly deposited, official prenumbered receipt slips should be issued for all monies received immediately upon receipt.
- The method of payment (i.e., cash, check, or money order) is not always recorded on the receipt slips. To ensure all receipts have been recorded properly and deposited intact, the method of payment should be recorded on each receipt slip and the composition of receipts should be reconciled to the composition of bank deposits.
- Receipt slips are not issued in numerical sequence for monies received by the city. For example, two receipt books were being used by the receptionist concurrently and were not issued in order. To adequately account for all receipts, receipt slips should be issued in numerical order for all monies received and the numerical sequence should be accounted for properly. In addition, some voided receipt slips were not retained. To ensure all receipt slips are properly accounted for, all voided receipt slips should be properly defaced and retained.
- The city could not locate receipt books which were used during the period May 20, 2005 through March 21, 2006. As a result, there is no assurance city receipts were handled properly during this time period. To properly account for all receipts, all receipt slips should be retained.
- Checks and money orders received are not restrictively endorsed until the deposit is prepared. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- Receipts are not posted to the city's accounting system until a deposit is prepared. For example, building permits, business licenses, COBRA insurance payments, and an excavation permit totaling \$2,075 were received between September 27 and October 6, 2006, but were not posted to the city's accounting system until October 17, 2006. To ensure receipts are accounted for properly, all receipts should be posted to the city's accounting system when received.
- Receipts are not always deposited intact or in a timely manner. For example, \$764 of business and contractor's license and other miscellaneous fees received between June 15 and 19 were withheld from the deposit made on June 20 and not deposited until June 23, 2006. To adequately safeguard

receipts and reduce the risk of loss or misuse of funds, deposits should be made intact on a timely basis.

- C. The city's monthly financial statements report large balances being accumulated in the due to/from account balances. The city's financial statement audit reported the following due to/from balances for the year ending December 31, 2005:

Fund	Due To	Due From
General	\$ 772,634	795,158
Transportation	205,517	247,507
Capital Projects	0	10,268
Sewer	548,830	494,996
Water	407,623	386,675
Total	<u>1,934,604</u>	<u>1,934,604</u>

In addition, the city's records reported due to/due from balances at October 31, 2006 as follows:

Fund	Due To	Due From
General	\$ 455,792	370,577
Transportation	44,717	95,174
Capital Projects		
Sewer	305,735	246,895
Water	238,986	332,584
Total	<u>1,045,230</u>	<u>1,045,230</u>

The city wrote off a due to balance in the water fund from the sewer fund totaling \$618,989 in December 2004 without supporting documentation of what transactions represented this large due to/from balance. Prior to January 1, 2005, the city did not maintain supporting documentation of any due to/from amounts. The city's 2004 independent audit recommended tracking these due to/from balances, and as a result, the city started tracking these account balances during the year ending December 31, 2005.

Most of the balances in the due to/from accounts in 2006 and 2005 noted above result from the city not making transfers from its various bank accounts for the following reasons:

- Payroll and accounts payable expenses of other funds are paid from the General Fund checking account.
- Administrative transfers are paid from the Water, Sewer, and Transportation Funds to the General Fund.
- Water Fund revenues are deposited into the Sewer Fund bank account.

These transactions are recorded in the proper fund at the time of receipt/disbursement; however, the transfer from the appropriate bank account is not always made. Therefore, the due to/from accounts are used to track receivables/payables between the various funds, and essentially represent loans between the funds. The city only makes transfers occasionally as funds are needed in the general checking account or water account which has caused these due to and from balances to accumulate.

To properly account for all city funds and ensure restricted funds are used as intended, transfers of funds should be made in a timely manner to eliminate the large accumulation of balances in the due to/from accounts. In addition, it is essential that the city discontinue the write off of due to/from balances without supporting documentation. Allocation of expenses is necessary for the city to ensure the water, sewer, and trash rates are sufficient to cover the cost of providing the service without generating profits to subsidize other city services.

- D. The city maintains twenty-one bank accounts. Except for separate accounts required by bond covenants, it appears that the remaining bank accounts could be consolidated to help simplify the city's records and reduce the number of accounts that must be monitored and controlled.
- E. The city does not follow up on old outstanding checks. As of September 30, 2006, there were 12 outstanding checks over a year old totaling \$2,993 in the general checking account. Some of these outstanding checks dated back to 2004, and some of these checks were to board members, employees, or vendors routinely used by the city.

These old outstanding checks create additional and unnecessary record keeping responsibilities. An attempt should be made to locate the payees of the old outstanding checks, and the checks should be reissued if possible. If the payee cannot be located, various statutory provisions provide for the disposition of unclaimed monies. In addition, routine procedures should be established to investigate checks outstanding for a considerable time.

- F. The city often voided numerous checks due to printing errors; however, these check numbers were not always properly accounted for. In addition, the city's accounting records and outstanding check list contained three checks that had been manually voided, but not voided in the city's accounting records. To properly account for all disbursements, the numerical sequence of checks issued and voided should be accounted for, and voided checks should be properly recorded in the city's accounting records.
- G. The city maintains a petty cash fund, four change funds, and a drug buy fund. Improvements are needed over these funds as follows:
  - 1. The city does not have a listing of approved petty cash and change funds and a written policy regarding these funds. The city was unaware that

some such funds even existed. Written policies should be established outlining the procedures for maintaining, using, and accounting for the petty cash and change funds. The city should also maintain a listing of all authorized petty cash and change funds and amounts as well as procedures for adding funds or changing fund amounts.

2. The \$100 change fund maintained by the Utility and Property Tax Collector was not maintained at a set amount and the \$100 petty cash fund maintained by the City Clerk was not maintained on an imprest basis. Minimal amounts of monies in excess of the set funds were on hand during our cash counts.
3. The city does not maintain a petty cash ledger or proper documentation to support the receipts and disbursements of the petty cash fund. Petty cash expenditures totaling \$217 were not supported by a vendor invoice. In addition, various purchases from the petty cash fund totaling \$335 did not appear to be a prudent or necessary use of city funds. The city expended \$2,214 from the petty cash fund during the year ending December 31, 2005.

To ensure all receipts are appropriately handled and recorded, and disbursements are proper, the city should maintain the petty cash funds on an imprest basis, where petty cash on hand plus the total of all paid invoices should always equal the predetermined balance of the petty cash fund. The petty cash fund should only be reimbursed by city checks equal to the amount of the paid invoices. The city should maintain a petty cash ledger documenting receipts, disbursements, and the balance of the petty cash fund and retain documentation to support disbursements of the fund. Additionally, any change funds should be maintained at a set amount.

- H. City checks require two signatures, with the Mayor, City Treasurer, and City Administrator all authorized to sign checks. In addition, various police officers and dispatchers collect bonds, accident report and breathalyzer fees. During the period April through December 2006, the Mayor, City Treasurer, and police officers and dispatchers were not bonded. The board should ensure all employees or officials in positions of handling city monies are adequately bonded or consider a blanket bond to cover all employees and officials.

**WE RECOMMEND** the Board of Aldermen:

- A. Reconcile licenses and permits issued and miscellaneous charges to amounts deposited, and ensure the numerical sequence of business licenses is accounted for properly. In addition, establish an ordinance which defines the procedures and requirements for handling and approving building permit applications, issuing building permits, and performing building inspections.

- B. Issue official prenumbered receipt slips for all monies received. Ensure the method of payment is recorded on each receipt slip, and the composition of receipts is reconciled to the composition of deposits. Require receipt slips to be issued in numerical sequence, and ensure the numerical sequence of receipt slips is accounted for properly. In addition, voided receipts should be properly defaced and retained, and retain all copies of receipt slips issued. Also, restrictively endorse all checks immediately upon receipt, ensure receipts are posted to the city's accounting system when received, and deposit all monies intact and in a timely manner.
- C. Ensure transfers of funds are made in a timely manner to avoid an accumulation of due to/from balances, and the balances in the accumulated due to/from accounts should be transferred, when funds become available to ensure restricted revenues are used appropriately. In addition, ensure due to/from balances are not written off without adequate supporting documentation.
- D. Consider consolidating the city's twenty-one bank accounts.
- E. Attempt to resolve the old outstanding checks, and establish routine procedures to investigate checks outstanding for a considerable time.
- F. Account for the numerical sequence of checks issued and voided, and ensure all checks issued and voided are accurately recorded in the city's accounting records.
- G. Establish written procedures governing the accounting for the petty cash and change funds. Also, the city should maintain a listing of each fund, the authorized balance of each fund, and establish procedures for adding funds or changing fund amounts. In addition, maintain the petty cash and change funds on an imprest basis and retain adequate documentation for all petty cash disbursements. The city should also ensure a petty cash ledger is maintained.
- H. Ensure all applicable employees or officials in positions of handling city monies are properly bonded.

**AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

*A,B*

*&*

*E-H. We agree.*

*C. We agree, although the City has made substantial compliance in the last 18 months.*

*D. The City will take this into consideration.*

Financial statements prepared and published by the city were incomplete and inaccurate, and some financial statements were not published. Improvements are needed in preparation of the city's budgets, and the city did not amend its 2005 budget until after the actual expenditures had been incurred. The city has also not developed a formal street maintenance plan.

- A. The city's published semi-annual financial statements for the six months ended June 30, 2006 and June 30, 2005 were incomplete and inaccurate. In addition, semiannual financial statements were not published for the six month period ending December 31, 2005.

The published financial statements reported total revenues, expenditures, assets, liabilities, and ending fund balances for each of the city's five funds. However, there was no detail reporting of revenues and expenditures and the totals included bank receipts and disbursements. The City Treasurer indicated the assets, liabilities, and ending fund balances reported represented the aggregate total of such amounts for each of the six months. As a result of this and other errors, the city's published financial statements overstated assets, liabilities, revenues, expenditures, and the fund balance of the city by approximately \$1.4 million, \$6.8 million, \$1.9 million, \$1.4 million, and \$16.1 million, respectively.

Further, the published financial statements did not include the indebtedness of the city. At December 31, 2005, the city had approximately \$10.9 million in debt.

Section 79.160, RSMo, requires the board of aldermen to prepare and publish semiannually, a full and detailed account of the revenues, expenditures, and indebtedness of the city. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statement is published. Complete and accurate financial statements are necessary to keep the citizens informed of the financial activity and condition of the city.

- B. The city's budgets were not complete. The city's 2005 budget did not include the Capital Project Fund or complete activity of the five NIDs. The Capital Project Fund revenues and other financing sources totaled to \$2,512,443, expenditures totaled to \$2,556,897, and the beginning and ending fund balances were \$76,699 and \$32,245, respectively. In addition, the city's 2006 and 2005 budget did not include the city's indebtedness, and beginning available resources, or estimates of ending fund balances. The city's 2005 budget also did not include a budget message.

The Board of Aldermen approved a budget amendment to increase budgeted expenditures in the Water Fund by \$122,000 on December 13, 2005, to reflect unbudgeted expenditures made during the year ending December 31, 2005.

However, prior to these amendments, expenditures had already exceeded the original budget. In addition, no other budget amendments were made prior to this date, and after this budget amendment was made the Water Fund still overspent its budget by \$18,288.

Section 67.010, RSMo, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing year. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. In addition, amendments made after expenditures have exceeded the budget do not allow for the budget to be used as an effective management tool, and the board should refrain from approving expenditures in excess of the budgeted amounts.

- C. Formal maintenance plans for the city utility system and the city roads have not been prepared. Maintenance plans should be prepared in conjunction with the annual fiscal budget and include a description of 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.

Formal improvement plans would serve as a useful management tool and provide greater input into the overall budgeting process. Plans provide a means to continually and more effectively monitor and evaluate the progress made in the repair, maintenance, and improvement of the utility system and the roads throughout the year.

**WE RECOMMEND** the Board of Aldermen:

- A. Publish complete and accurate financial statements that provide the citizens an account of all of the financial activity and indebtedness of the city.
- B. Ensure budgets are prepared for all funds including the Capital Projects Fund and each NID, and ensure budgets include the beginning and projected ending balances. In addition, approve budget amendments prior to incurring the actual expenditures, closely monitor budgeted and actual revenues and expenditures, and ensure expenditures for individual funds do not exceed the amounts approved in the budget, unless proper and timely amendments are made prior to incurring the expenditures.
- C. Prepare and document maintenance plans at the beginning of the fiscal year and periodically update the plan throughout the fiscal year. In addition, the board

should review the progress made in the repair and maintenance of the utility system and the roads to make appropriate decisions on future projects.

**AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

*A&C. We agree.*

*B. We agree, and the City will take under advisement.*

<b>7. Bidding Procedures</b>
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The city's bidding procedures are in need of improvement. In addition, the city has contracted for audit services for several years without conducting a selection process, and the city did not solicit proposals for engineering services related to the transportation enhancement and northshore water utility extension projects. Also, the city entered into a long term contract for residential and commercial trash services without knowing the value of the contract, and failed to enter into formal contract amendments when trash service rates were increased.

A. Although the city has an ordinance establishing a procurement policy which requires city officials to solicit bids for items or services costing more than \$5,000, bids were not solicited or bid documentation was not retained in accordance with the policy in the following instances:

Item	Cost
Fuel (2006 and 2005)	\$ 119,108
Grinder pumps	19,247
Grinder pump repairs	7,288

In addition to complying with city ordinances, competitive bidding helps ensure the city receives fair value by contracting with the lowest and best bidders. Bidding helps ensure all parties are given an equal opportunity to participate in the city's business. In addition, complete documentation should be maintained of all bids received. If other than the lowest bid is selected, the reasons should be adequately documented.

B. The city has contracted for audit services for several years without conducting a selection process. The city paid \$6,501 and \$13,284 for audit services during the years ended December 31, 2006 and 2005, respectively.

Selection processes are necessary to ensure the city is receiving the best services and rates. The process should include advertising and soliciting proposals and evaluating these proposals for technical experience, capacity and capability of

performing the work, past record of performance, and the firm's proximity to and familiarity with the city. Information concerning the selection process should be documented and retained.

- C. The city did not solicit proposals for engineering services related to the transportation enhancement and northshore water utility extension projects. The city paid a local engineer \$55,257 during the two years ending December 31, 2006. Sections 8.285 to 8.291, RSMo, provide that when obtaining engineering services, at least three highly qualified firms should be considered. The firms should be evaluated based on specified criteria and qualifications for the type of service required. The best proposal should be selected based on experience, type of service to be provided, and any other relevant information.
- D. After soliciting proposals, the city entered into a six and one-half year contract for residential and commercial trash service in August 2000. In addition, the original contract did not require the trash service company to report amounts collected for commercial and industrial customers to the city; therefore, the city was unaware of the total value of the contracted services. Also, although trash rate increases were approved in board minutes, formal contract amendments were not prepared.

The original contract provided for the trash service company to bill commercial and industrial customers directly and required the city to bill residential customers, and then pay the trash service company. In December 2005, the board of aldermen approved residential trash rate increases and verbally agreed with the trash service company to share the rate increases. The former City Administrator sent a letter to the trash company in December 2004 amending the original contract by extending it another three months. The city entered into a five year contract with another trash service vendor on December 12, 2006.

City officials should avoid long-term contracts that obligate the city to a single vendor. In addition, to ensure the city is aware of the value of services received, the trash service contract should require the trash service company to report collections from commercial and industrial customers to the city. Further, any changes to contract terms and amounts should be supported by written and signed contract amendments.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure bids are solicited for all applicable purchases in accordance with city ordinances. In addition, documentation of the bidding process should be maintained including the reason for selecting other than the lowest bid as required by city ordinance.
- B. Periodically solicit proposals for audit services.
- C. Solicit proposals for engineering services.

- D. Avoid long-term agreements that obligate the city to a single vendor, ensure provisions are included in any future contracts or amendments requiring the trash service company to report collections from commercial and industrial customers to the city, and ensure contract changes are documented in written contract amendments.

**AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

*A&B. We agree.*

*C. We agree, and the City is doing so.*

*D. We substantially concur and the city differs to the length of contract.*

<b>8. Expenditures</b>
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The city's procedures for reviewing and approving invoices for payment are in need of improvement, and the city had expenditures which did not appear to be a necessary or prudent use of public funds. Adequate supporting documentation was not always maintained for city purchases, invoices are typically not marked paid, receipt of goods or services is rarely indicated on the invoice, invoices were not always paid in a timely manner, and the city does not always code expenditures to the appropriate expenditure line item. Additionally, the city did not always enter into written contracts.

- A. A reconciliation of the listing of bills reviewed and approved by the board, the approved invoices, and the actual checks written is not performed by the city. For example, the board reviews and approves a listing of expenditures each month; however, the listing is not complete. According to the accounting clerk, it does not include payroll expenditures or other routine monthly expenditures paid prior to the board meeting. In addition, 13 of 33 expenditures we reviewed (which were not payroll or other routine monthly expenditures) were not included on the listings approved by the board.

While city ordinance requires all expenditures greater than \$1,000 to be authorized by the City Administrator, the current and former City Administrator failed to document their approval and review on most supporting documentation. As a result, 24 of 25 expenditures greater than \$1,000 which we reviewed may not have been properly authorized by the City Administrators.

Good business practice requires all disbursements to be reviewed by the board or someone independent of the disbursement process and properly authorized. Failure to properly review all invoices and other supporting documentation, and to document authorization, increases the possibility of inappropriate disbursements

occurring. To adequately document the board's review and approval of all disbursements; a complete and detailed listing of bills should be prepared and signed or initialed by board to denote their approval, and retained with the official minutes. In addition, the City Administrator should document his review of each invoice, and an independent reconciliation of the approved listing of bills; invoices; and actual checks written should be performed.

B. The following expenditures do not appear to be a prudent use of public funds:

- The city holds an annual Christmas party which all city officials and employees, their spouses, and children are invited to attend. The city pays all of the costs related to the parties which totaled approximately \$4,800 for the three years ended December 31, 2006.
- The board approved a performance stipend of \$50 for all full time city employees. These cash payments totaling \$1,550 which appear to be bonuses were distributed to the city employees at the 2005 Christmas party. In addition, payroll taxes were not withheld nor were these bonuses reported on the employee's W-2 forms.

In both December and July 2005 the board approved performance stipends of \$500 each for ten city police officers totaling \$10,000. Federal and state tax withholdings were not made from the stipends paid in December 2005.

Bonuses given to employees 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 are contrary to 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." Further, the Internal Revenue Code requires employers to report wages on W-2 forms and withhold federal income taxes.

- The city made various donations and paid dues that may not be a prudent or necessary use of city funds. For example, the city made a donation of \$5,000 to sponsor a holiday nativity scene at the "Holiday Magic Drive-thru Park" in November 2005, and made another donation of \$2,500 in June 2006 to replenish the "Welcome Garden Fund".

The city also paid \$1,000 to the Lake of the Ozarks Regional Economic Development Council for dues in both July 2005 and November 2006; however, the city could provide no supporting documentation as to how they benefited from this membership.

- The city regularly purchases drinks, snacks, birthday cakes and cards for its employees and the board. During our review of 3 expenditures to local grocery stores, \$250 of \$366 purchased was for these types of items.

The city's residents place a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. Given the city's other obligations, the above expenses may not be a necessary and prudent use of public funds.

- C. The city does not ensure that adequate supporting documentation is always maintained for goods purchased. We noted that for payments totaling \$313 and \$51 made to a local gas company and grocery store, the vendors sent monthly summary statements to the city summarizing purchases; however, the individual itemized invoices were not retained. Additional documentation concerns related to credit card purchases are noted in MAR No. 9. All expenditures should be supported by paid receipts or vendor invoices to ensure the obligation was actually incurred and the expenditures represent appropriate uses of public funds.
- D. Invoices are typically not marked paid or otherwise cancelled. For example, only one invoice of 33 we selected for review was marked paid or otherwise cancelled. As a result of not marking invoices paid, the city was not aware a duplicate payment of \$1,465 was made for canine insurance on both August 1 and September 14, 2005. (One check remained outstanding but no follow up was performed by the city). Another duplicate payment for bullet proof vests of \$505 was made on both September 29, 2006 and January 10, 2007.

The acknowledgment of receipt of goods or services is rarely indicated on invoices prior to the expenditure being approved for payment. For example, receipt of goods or services was not indicated for 20 of 28 expenditures we selected for review.

Canceling invoices and all other supporting documentation reduces the possibility of duplicate payments, and documentation of the receipt of goods or services is necessary to ensure the city actually received the items or services being paid.

- E. Invoices were not always paid in a timely manner. For example, health insurance for city employees was cancelled in August 2005 because the city failed to pay the \$13,529 bill on time. Health insurance was subsequently reinstated upon payment of the bill. In addition, the city failed to pay an employee garnishment in October 2005 totaling \$452. As a result, the Camden County Associate Court re-garnished the city employee in March 2006. Good business practices require timely payments of invoices. Failure to make timely payments could result in unnecessary penalties and interest.
- F. The city does not always code expenditures to the appropriate expenditure line item. For example:

- The board approved an expenditure for bullet proof vests to be paid from the police vehicle expenditure line item. In addition, a second purchase of vests was coded to police vehicles and office supplies.
- The dinner for the 2005 Christmas party was coded as administrative office supplies. In addition, several credit card purchases for party door prizes were coded as office supplies and miscellaneous.

The city should ensure all expenditures are appropriately classified and amend the budget if necessary.

- G. The city has no procedures in place to ensure Forms 1099 are always filed with the Internal Revenue Service (IRS) when required. For example, the city failed to send a 1099 to a construction company for payments of over \$680,000.

Sections 6041 through 6051 of the Internal Revenue Code require payments of \$600 or more for professional services or for services performed as a trade or business by non employees (other than corporations) be reported to the federal government on Forms 1099.

- H. The city did not always enter into written contracts defining services to be provided and benefits to be received.

- The city entered into a verbal agreement with a city employee to provide contracted cleaning services for two public bathrooms. In addition, the city did not ensure that adequate invoices and supporting documentation were submitted by the employee and some payments appeared excessive. For example, this employee was paid \$1,200 for these services in May 2005 in addition to her regular monthly salary which approximated this amount.
- The city has not entered into a new written agreement to provide police services to Lakeside since 2003. The city received \$8,500 and \$8,790 for these services during the years ending December 31, 2006 and 2005, respectively.
- The city provides sewer service to Lake Region Water and Sewer Company and has not updated its written agreement for a sewer rate increase that was approved by the board in February 2005.
- The city has not entered into a written agreement with the Bagnell Special Road District (SRD) to provide maintenance to roads contained in both the SRD and the city.
- In February 2006, the city entered into a verbal agreement with a local business owner to share the cost of constructing the business's only parking spaces totaling \$4,535 related to the transportation enhancement project. In

addition, it is unclear why this business owner was charged for the construction of parking spaces when no other business owners involved in the strip enhancement project were charged.

Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Written contracts should specify the services to be rendered and the manner and amount of compensation to be paid. In addition, Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. Further, the Board of Aldermen should clearly document its reasons for treating some business owners differently than others.

- I. The city has not periodically solicited proposals from various banking institutions for the deposit of city monies. A periodic evaluation of proposals from various banking institutions would provide the board with current opportunities for making sound banking decisions.
- J. The city has incurred increased legal settlements and fees over the past two years, and city officials and employees could benefit from attending training on topics such as: discrimination, conflict management, and sexual harassment. Many of these lawsuits have resulted from the continued conflict between past and current board members, employees, and the public. The city's insurance company and the city paid \$150,000 to settle a discrimination lawsuit and \$12,400 to outside legal counsels during the year ending December 31, 2006, respectively. The city also has an attorney on retainer at a cost of \$1,500 per month. The Board of Aldermen and city officials should consider attending training to enable them to properly handle future conflicts.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure detailed and complete listings of bills are prepared, that the boards' approval is reflected on the listing, and that the listing is retained. In addition, either the board should review the invoices or assign someone independent of the check preparation and signing process to perform and document this review. Further, the City Administrator should document his review and approval of all purchases greater than \$1,000 in accordance with city ordinance, and approved listings of bills should also be compared to checks written.
- B. Ensure expenditures are a necessary and prudent use of city funds, and discontinue the practice of paying bonuses. In addition, ensure all compensation provided for or paid to city employees is properly reported and appropriate payroll taxes are withheld and paid. Further, the city should consider filing amended W-2 forms for the unreported employee compensation.
- C. Require adequate supporting documentation for all expenditures.

- D. Ensure all invoices are properly cancelled, by marking the invoice 'Paid' to reduce the possibility of duplicate payments. Also, require all invoices to be initialed or signed by a city employee to indicate acceptance of the goods or services.
- E. Ensure invoices are paid in a timely manner.
- F. Ensure all expenditures are charged to the correct line item and budget amendments are made, if necessary.
- G. Ensure payments totaling greater than \$600 to nonemployees and unincorporated businesses are properly reported to the Internal Revenue Service.
- H. Enter into written agreements with all parties that clearly detail the services to be performed and the compensation to be paid or benefits received. In addition, the board should clearly document why some business owners are treated differently than others.
- I. Solicit proposals from various banking institutions on a periodic basis.
- J. Consider attending training and providing training to employees to enable them to properly handle future conflicts.

**AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

A. *The City agrees that it should amend its policies, although not precisely as the audit suggests.*

*B-G,  
I&J. We agree.*

*H. We agree, as it is the policy of the current administration.*

<b>9. Credit Cards and Cell Phone Procedures</b>
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Questionable transactions concerning the city's cellular phone reimbursement procedures were identified. The city does not have a formal policy regarding cellular phone usage or guidelines to determine whether some cellular phones are needed or beneficial to the city, and the city did not adequately monitor the phones in operation. Additionally, procedures for monitoring credit card purchases are inadequate, and the city does not have a formal credit card policy.

A. The city provides a cellular phone to the City Administrator, Police Chief, Public Works Director, a public works employee, Building Inspector, and the

Community Development Director. Cellular phone bills of employees being provided a cellular phone by the city are not reviewed for propriety. The city also provides phone service to ten other police department and public works department employees, with these employees receiving either a \$10 or \$20 monthly allowance for their cellular phone bills. The remaining cost of the related phone bills is withheld from each of their payroll checks. The city also provides cellular phone service to four other employees and the entire cost of their cellular phone bills is withheld from their payroll checks. One of these four employees is the Accounting Clerk who has two cellular phones. During 2006, the city paid \$18,463 in cellular phone charges and \$10,436 or 57% of this amount was for the employee's personal phone service.

The Accounting Clerk prepares a worksheet detailing each employee's personal cellular phone reimbursements to be withheld from each payroll check; however, the worksheet is not retained after the payroll deductions are made. Our review of the October 2006 phone reimbursement worksheet (obtained during the course of our audit) and subsequent payroll deductions identified discrepancies in the amount billed to the Accounting Clerk for her two phones and the amount she calculated to be reimbursed through her payroll deductions. The amounts charged on the Accounting Clerk's two cell phone bills totaled to \$139 while her payroll deductions totaled to only \$117, resulting in \$22 not being reimbursed to the city. Had anyone compared the reimbursement worksheet to the monthly cell phone statement, these discrepancies may have been detected.

There was no basis for the amount the Accounting Clerk determined to be paid to the cellular phone company each month. Current charges were sometimes paid and at other times the total amount due was paid, which resulted in over and under payments of the monthly bills. At March 1, 2007, the city had overpaid the cellular phone company \$346. These over/under payments went undetected as a result of an inadequate review of cellular phone bills and the related payments.

Cellular phone plans and other arrangements for the employee's phone service are made by the city's Accounting Clerk. The City Clerk indicated that the city's policy was to establish a cellular phone plan for each employee for 600 minutes. Some employee cellular phone plans with phone service paid entirely by the city did not appear to match their usage patterns. For example, the City Administrator's October 2006 phone bill included additional charges of \$57 for exceeding the plan minutes by 354 minutes. In addition, a sewer employee's phone bill included additional charges of \$132 for exceeding the plan minutes by 816 minutes. The Accounting Clerk also made arrangements for two employees to have plans that provided for minutes in excess of 600.

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 board

authorizes the phone to be used for personal purposes. Given the administrative time involved in computing the volume of personal phone service being provided and the errors identified with determining reimbursements, the board should re-evaluate the cellular phone service for its employees.

Additionally, cellular phone usage patterns should be routinely monitored to ensure each user is enrolled in the most cost-effective plan. The city should review its current and historical levels of cellular phone use for business-related purposes along with the types of employee positions that require cellular phones and develop a standard for matching employees and their positions to cellular phone plans. Implementing such procedures should result in cost savings to the city.

B. Controls over the city's credit cards need improvement. The city has 3 discount store credit cards, 3 bank credit cards, 2 office supply credit cards, 2 home improvement store credit cards, and 2 farm and home credit cards. Credit card purchases totaled approximately \$33,000 and \$24,000 during the years ended December 31, 2006 and 2005, respectively.

- Individual credit card slips are not reconciled to the credit card statement each month. Adequate supporting documentation was not maintained for \$487 of the \$3,322 credit card purchases we reviewed. On several charges including police department equipment and office supplies, documentation was not adequate or retained.

Further, the discount store statement had been altered to "mark out" the description of some items purchased. Upon further review of the statement, it was determined that \$17 in cosmetics had been purchased on December 10, 2005. There was no documentation that the City Administrator reviewed or approved this statement or that these purchases were ever questioned.

- The city has not adopted formal policies and procedures for the use of these credit cards.

Given the lack of controls over these credit cards, the board and City Administrator should closely evaluate the need for each credit card. In addition, complete and detailed written credit card policies and procedures are necessary to provide guidance to employees, and help ensure credit cards are used only for city business. The city should develop policies which require all credit slips be submitted prior to payment of credit card invoices and compared to the credit card statements, and require purchases to be approved by someone other than the cardholder. The city needs to perform an adequate review of all credit card purchases to ensure expenses paid are necessary, reasonable, and adequately documented, and ensure any altered credit card statements are questioned.

**WE RECOMMEND** the Board of Aldermen:

- A. Review the questionable transactions and take the appropriate action. In addition, develop a policy regarding the use of cellular phones, which includes procedures to monitor their use, periodically assess which employees need a cellular phone, and ensure the most cost-effective cellular phone plans for business-related purposes are selected based on actual business usage by city personnel. The board should also consider the necessity of providing personal cellular phone service to its employees, and establish effective procedures to review cellular phone bills for propriety.
- B. Evaluate the need for each credit card and cancel any cards which are determined unnecessary. Formal policies and procedures should be adopted for credit card use, including policies which require all credit slips be submitted prior to payment of credit card invoices and require purchases to be approved by someone other than the cardholder.

**AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

*A&B. We agree.*

<b>10. Benefits Provided to Officials/Employees and Vehicles and Equipment</b>
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The city allowed the City Administrator, City Clerk, public works department employees, and police officers that live outside the city limits to take their city owned vehicles home daily, but did not report the value of personal automobile (commuting) use as compensation. In addition, fuel tickets are not reconciled to the monthly fuel bills, fuel and usage logs are not maintained for the administration and police department vehicles, and mileage and fuel usage logs maintained by the public works department are not reconciled to fuel purchases. Given the personal use of city owned vehicles and the lack of controls over vehicles and fuel, the city needs to review whether the number of vehicles owned by the city is necessary.

- A. The city allowed the City Administrator, City Clerk, public works department employees, and police officers that live outside the city limits to take their city owned vehicles home daily in violation of their own personnel policy. The city's personnel policy states "vehicles will be used for only city purposes and assignments." Many of these city employees live 10-20 miles away (one way). Allowing city officials, public works employees, and police officers, living outside the city to take their vehicles home, results in additional and unnecessary costs to the city.

- B. The city is not reporting the value of personal automobile (commuting) use in city vehicles as compensation, if applicable. Federal regulations require all employers to withhold payroll taxes and include the value of personal automobile (commuting) use in taxable income. The Internal Revenue Service (IRS) provides several methods to determine automobile commuting values. While certain vehicles, such as police cars and other emergency vehicles, are exempted from these requirements, it appears there may be tax consequences for other individuals.

The city should ensure that commuting use in city vehicles is properly reported as taxable income and payroll taxes withheld for the applicable employees.

- C. The city owns 24 vehicles and various pieces of equipment. Three vehicles are assigned to administration (City Administrator, City Clerk, and Building Inspector/Planning and Zoning), nine are assigned to the police department, and twelve vehicles and various pieces of equipment are assigned to the public works department. During our review of city vehicles and equipment, we noted the following concerns:

1. Fuel tickets are not always submitted from employees, and as a result, fuel tickets are not reconciled with monthly fuel bills. The city purchases fuel from three local gas stations. During the years ended December 31, 2006 and 2005, the city spent approximately \$62,000 and \$57,000, respectively for fuel. The city should develop policies which require all fuel tickets to be submitted prior to payment of monthly fuel bills and reconcile fuel tickets to the monthly billing to ensure expenses paid are necessary, reasonable, and adequately documented.
2. Fuel and usage logs are not maintained for the administration and police department vehicles. As a result, fuel usage is not reconciled to fuel purchases. During the years ending December 31, 2006 and 2005, the city spent approximately \$29,949 and \$28,894 (included above in No. 1), respectively, for fuel for the administration and police departments.

Fuel and usage logs are necessary to document the appropriate use of vehicles and to also support fuel charges. The logs should include the date, driver, purpose and destination of each trip, and the daily beginning and ending odometer readings for vehicles.

3. Vehicle mileage and fuel usage logs maintained by the public works department are not reconciled to fuel purchases. Established procedures require each driver of a city vehicle to complete mileage and fuel usage logs indicating how much fuel was pumped.

In addition, a fuel usage log is not maintained for a hundred gallon portable diesel tank maintained in the back of a city truck. This portable

tank is used to fuel the city's various pieces of public works equipment. Also, fuel usage logs are not maintained for the public work's department equipment.

The city has spent \$31,668 and \$28,597 (included above in No. 1) for fuel during years ending December 31, 2006 and 2005, respectively, for the public works department.

To ensure the reasonableness of fuel expenditures, the city should maintain records of fuel usage, and reconcile mileage, equipment, and fuel usage logs, and fuel tickets to fuel purchased. Failure to account for fuel purchases could result in loss, theft, and misuse.

4. The city needs to begin keeping mileage records to better determine the personal use of city owned vehicles. Additionally, after implementing better controls over vehicles and fuel, the city should evaluate whether the number of vehicles owned is necessary.

**WE RECOMMEND** the Board of Aldermen:

- A. Review the policy of allowing city officials, public works employees, and police officers living outside the city limits to take city owned vehicles home.
- B. Ensure that commuting use in city vehicles is reported as taxable income, and payroll taxes withheld for the applicable employees.
- C.1. Require all fuel tickets to be submitted prior to payment of monthly fuel bills, and ensure a reconciliation of fuel tickets to the monthly billing is performed.
2. Ensure the administration and police departments maintain logs for vehicles which include the purpose and destination of each trip, and the daily beginning and ending odometer readings for vehicles. In addition, ensure the logs are periodically compared to fuel purchases and reviewed to ensure the vehicles are used only for city business.
3. Ensure a documented periodic reconciliation of fuel purchased to amounts used by the public works department is performed, and investigate any significant discrepancies. In addition, ensure fuel usage logs are maintained for the portable diesel tank and equipment.
4. Evaluate the usage and necessity of all vehicles to ensure they are properly utilized.

## **AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

A. *The City agrees to review the policy.*

B&C. *We agree.*

<b>11. Payroll</b>
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An adequate review of the city's payroll reports, employee timecards/sheets, and payroll checks was apparently not performed which allowed errors and inaccuracies to go undetected. In addition, the City Administrator does not prepare a timesheet, and timecards/sheets are not always signed by the employee or their supervisor. The city did not monitor the overtime paid to its police department employees, some of the hours claimed to have been worked appear unreasonable, and a temporary increase in the overtime rate was paid to some officers. The Public Works Director was allowed to accumulate a vacation leave balance in excess of the maximum allowed by the city's personnel policy, and the city terminated and subsequently paid its former City Administrator \$7,454 in severance payments which do not appear to be a necessary use of city funds. The city's personnel policy needs to be updated.

A. An adequate review of the city's payroll reports, employee timecards/sheets, and payroll checks was apparently not performed by the City Clerk or the City Administrator which allowed errors and inaccuracies to go undetected. For example, the accounting clerk double paid a police officer \$971 through direct deposits on January 25, 2006 and overpaid a former police officer \$426 in June 2006. The double payment was subsequently withheld from the employee's payroll check; however, the overpayment has not been recovered. Numerous other errors in payroll records and amounts paid to employees were identified.

In addition, duties are not adequately segregated to provide the necessary internal controls over the payroll function. The accounting clerk handles all payroll duties, including preparation, record keeping, disbursing payroll checks, distributing employee W-2s, and maintaining personnel files.

A proper segregation of duties provides a means of establishing control over assets, thus minimizing the risk of loss, theft, or misuse of funds. If segregation of duties is not possible, the comparison of the payroll disbursements to the payroll register and employees timesheets by an independent individual would provide another supervisory review to minimize the risk of loss, theft or misuse of funds.

B. Timecards/sheets and leave records are prepared by all city employees except for the City Administrator. Timecards/sheets were not signed by some employees

and were not always reviewed or signed by supervisors to ensure their accuracy. For example, while the City Clerk indicated that she attended to personal business in Camden on August 25, 2005, her timesheet indicated she worked 8 hours between 8 a.m. and 5 p.m. Numerous other errors and discrepancies were noted on various employees' timesheets and leave records during our review of payroll records. Further, leave requests of the City Administrator and City Clerk are not reviewed and approved.

Timecards/sheets and leave records are necessary for all employees and officials to document hours actually worked, substantiate payroll expenditures, and provide the board with a method to monitor hours worked. In addition, timesheets should be signed by the employee and the employee's supervisor to indicate their agreement to the actual time reported each month and to ensure the accuracy of time worked and leave taken. The city's personnel policies require all employees to sign and complete timesheets, submit them to their supervisor, and for department heads to review all timesheets. Leave requests of the City Administrator and City Clerk should be approved by the Mayor or Board of Aldermen.

- C. The city did not monitor the overtime paid to its police department employees. Overtime was paid to three police officers to remodel the police department and some of the hours worked appear unreasonable. For example, two police officers worked on a holiday, claimed 20.5 hours and 16 hours, and were paid \$622. None of the overtime was approved in writing by the board or any other city official prior to the overtime being worked. In addition, some other overtime hours appeared questionable and were sometimes recorded incorrectly.

Further, the police department received two grants totaling \$1,698 to fund overtime used to enforce drinking and driving laws by providing sobriety checkpoints and saturation patrols. The grants provided for the employee's overtime rate and benefits to be reimbursed to the city upon receiving documentation of time worked and the numbers of violations sited during the effort. However, the Police Chief approved a temporary increase in the overtime rate paid to each of the officers involved to meet the approximate maximum amount reimbursed from each of the grants. As a result, the city incurred the additional costs of the fringe benefits related to the inflated overtime, which were not claimed for reimbursement through the grant, and the police officers received a temporary salary increase that was not approved by the Board of Aldermen.

To better control payroll costs, the city should establish a more detailed written policy regarding overtime compensation for city employees. This policy should require the approval of any overtime to be documented prior to the hours being worked and be in compliance with the Fair Labor Standards Act (FLSA). In addition, the city should ensure the cost of fringe benefits are requested for reimbursement on any future grants, and any salary increases be approved by the Board of Aldermen.

- D. The Public Works Director was allowed to accumulate a vacation leave balance in excess of the maximum allowed by the city's personnel policy during the period January 2005 through July 2006. The Public Work Director's leave balance ranged from 208 hours to 290 hours during this time period, while the maximum leave balance allowed by the city's personnel policy is only 200 hours.

Strict compliance with leave policies and accurate records of leave are necessary to ensure employees are properly compensated for accumulated leave and are treated equitably.

- E. While city ordinance Section 105.370 provides for the City Administrator to receive severance pay for two calendar months following the date of termination, severance payments do not appear to be a necessary use of city funds. The board terminated the former City Administrator in August 2005, and the city subsequently paid him \$7,454 in severance payments for two months of salary. The city also paid \$1,659 for Comprehensive Omnibus Budget Reconciliation Act (COBRA) health coverage for the former City Administrator after his termination. Severance and COBRA payments do not appear to be a necessary use of city funds, and the board should consider the necessity of including these types of payments in future employment contracts or city ordinances.

- F. During our review of the city's written personnel policy and procedures, we noted the following concerns:

1. The city provides dental and vision insurance benefits of \$19 each month to 15 of 31 full time employees. The Board of Aldermen has not approved providing this benefit nor is it provided for in the city's personnel policy. Additionally, since dental and vision insurance benefits are only provided to some full time employees, the benefit could be considered taxable for income purposes.

To ensure equitable treatment of all employees, the board of aldermen should consider approving providing this benefit to all full time employees.

2. Currently, public works employees are compensated for 8 hours for being "on-call" (or carrying a pager) for 7 days irregardless of whether or not they are called out for an emergency. In addition, if the "on-call" employee is called out for an emergency (for less than a 2 hour period) they are compensated for a minimum of 2 hours. If the call exceeds 2 hours, they are compensated for actual time spent on the call. The city's personnel policy does not address "on-call" duties and the related compensation.

3. The city allows members of the Board of Aldermen and Mayor to purchase health insurance through the city and reimburse the city for the cost; however, the city's personnel policy does not provide for this benefit.
4. Employees and elected officials, who leave employment of the city, are eligible for COBRA health coverage; however, the city does not have personnel policies and procedures that address the timely collection and handling of COBRA payments. For example, a past employee failed to pay the city for three months of COBRA health coverage totaling \$829 before the city terminated her coverage, and a past alderwoman did not always pay in a timely manner.
5. The city allowed a new employee to deduct city water and sewer deposits from their payroll check in partial payments; however, the city's personnel policy does not provide for this benefit.

A comprehensive and updated personnel policy manual would provide guidance and control for the effective and consistent management of the city's employees.

- G. City employees sometimes used "white-out" on their timesheets. To provide adequate assurance that all timesheet entries are proper, "white-out" should not be used. If an error is made on the timesheet, the timesheet should be corrected and initialed by the employee and their supervisor.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure to perform an adequate review of timecards/sheets, payroll reports, and paychecks for accuracy. In addition, adequately segregate the payroll function of recording, calculating and dispersing payroll. At a minimum, there should be a documented supervisory review of the reconciliation between timesheets and payroll records.
- B. Ensure the City Administrator prepares a timesheet, and all timesheets and leave requests have been signed by both employee and the employee's supervisor.
- C. Monitor any future overtime hours accrued by employees to ensure they are adequately supported, accurately calculated, and reasonable in nature. Update the written overtime policy to require the approval of any paid overtime to be documented prior to the hours being worked. In addition, ensure the cost of fringe benefits is requested for reimbursement on any future grants, and any salary increases are properly approved.
- D. Ensure compliance with the city's leave policy, and review this situation and adjust records of leave as needed. In addition, a periodic review of the leave records should be performed to ensure their accuracy and that accumulated balances are not excessive.

- E. Consider the necessity of including severance payments in future employment contracts and ordinances, and ensure all payments are a necessary use of city funds.
- F. Review the providing of dental and health insurance benefits to all full time employees and establish formal guidelines for providing these benefits. In addition, update the personnel policy to provide documentation of the city's current policies and procedures.
- G. Discontinue the practice of using "white-out" on timesheets.

**AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

A,C,  
D,F  
&G. *We agree.*

B. *The City will take under advisement.*

E. *In order to attract and retain competent city administrators, the City adopted two months of severance pay by ordinance.*

<b>12.</b>	<b>Utility System Controls and Procedures</b>
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Many significant problems were identified in the control procedures related to the utility system. The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid. An independent approval of adjustments posted to the utility system is not performed, sewer and water service is not always shut-off in accordance with the city code when accounts are delinquent, controls over sewer and water deposits are in of need improvement, and there is minimal oversight or adequate segregation of duties related to the city's utility system. The city also does not monitor its water usage on a monthly basis and has failed to bill some customers for water and sewer usage. The city has not performed a formal review of the water, sewer, and trash rates for several years, and it is questionable whether the city should be providing water and sewer hookup services on private property and charging fees to city residents for material, equipment, and labor.

As a result of these weaknesses, there is less assurance that all utility monies have been accounted for properly, water usage has been properly monitored, and that utility user charges are set at the appropriate level to cover the cost of providing the related services.

The Utility Clerk is responsible for entering meter readings, billing, collecting, and posting utility payments to the city's accounting software as well as generating monthly

activity reports and preparing deposits. The Public Works Secretary is responsible for reading customer meters, and the Public Works Supervisor is responsible for reading meters at the city's two wells and monitoring the city's water usage.

- A. The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid for utility services including water, sewer, and trash. The city utilizes a computerized system to record meter readings, prepare bills, and record payments of utility fees. The Utility Clerk generates and mails the monthly utility bills, generates billing reports, receives and deposits payments, records the payments on the system, and generates a delinquent listing. The utility system operating revenues were in excess of \$1.6 million for the year ended December 31, 2005 according to the city's independent audit report.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis.

- B. There is no independent approval of adjustments posted to the utility system. The Utility Clerk has the ability and authority to post adjustments to the computer system without obtaining independent approval. The Utility Clerk made multiple adjustments (credit)/debit to 17 different utility accounts for the month of September 2006 netting to (\$2,234). The Utility Clerk indicated that the primary reason for account adjustments was to correct errors.

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

- C. Sewer and water service is not always shut-off in accordance with the city code when accounts are delinquent. On April 25, 2006 the Board of Aldermen approved utility service to be disconnected if the customer's bill is not paid after 50 days. In addition, city code also states "any disconnected premise may not be re-connected until all past due bills for sewer and water services are paid in full and cutoff and reconnect fees are paid." We noted instances where sewer and water was not disconnected when customers accumulated significant delinquent balances. For example, at December 18, 2006, the Mayor and some board members had delinquent utility accounts that had not been paid within the required 50 days; however, service had not been disconnected. The Utility Clerk indicated because the Mayor made a \$50 partial payment toward his delinquent accounts on December 19, 2006, and other board members made arrangements to withhold some amounts due from their payroll checks, no action was taken by the city.

Allowing customers to receive service for long periods of time without paying reduces the incentive to make payments. In addition, the city's failure to

disconnect its elected officials in accordance with local code creates the appearance that these officials may have benefited improperly. The Mayor and Board of Aldermen serve the city in a fiduciary capacity. Their failure to pay their own utility accounts could harm public confidence and reduce their effectiveness. The city should ensure that sewer and water service is shut-off in accordance with city code.

- D. Controls over sewer and water deposits should be improved. Sewer and water deposits are recorded on each customer's electronic account; however, a listing of deposits on hand can not be prepared from the electronic system. Therefore, the Utility Clerk maintains a manual listing of deposits for tracking purposes. However, the Utility Clerk does not reconcile the electronic records to the manual lists, and as a result, there is no assurance that the records are accurate or complete. In addition, the manual deposit listings are not reconciled with the balances maintained in the sewer and water deposit bank accounts.

Errors made in depositing utility deposits were not detected. For example, at September 29, 2006 the sewer and water deposit bank accounts contained \$32,466 and \$8,852 while the related deposit listings reported \$16,984 and \$24,906, resulting in overages/(shortages) of \$15,482 and (\$16,054) in each bank account, respectively, and an overall shortage of \$572.

The city can improve controls over water deposits by maintaining a control ledger of sewer and water deposit receipts, disbursements, and balances and reconciling the balances to the total individual water deposits recorded in the electronic utility system and the sewer and water deposit bank accounts monthly. Any differences should be investigated and resolved.

- E. There is minimal oversight or adequate segregation of duties related to the city's utility system. The Utility Clerk performs all functions related to the utility system as noted above. While the city has implemented procedures for another employee to review and sign off on utility deposits, this review was apparently not effective. We noted inconsistencies between the composition of deposits made and the method of payment recorded in the computerized utility system; however, there was no documentation that such differences were detected by the city's review.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If a proper segregation of duties cannot be achieved, an adequate review of reconciliations between utility payments recorded and deposits should be performed and any differences investigated and documented.

- F. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped on a monthly basis. The Utility Clerk prepares a monthly billing report showing the number of gallons billed, and the Public Works Supervisor records meter readings of the city's two water wells, so information is available to perform such reconciliations.

During September 2006 the gallons of water pumped exceeded the total gallons billed by 4,462,500, or 34 percent. The city's Public Works Supervisor indicated that he believed the loss was due to several leaks in water lines and the fire department's use.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water pumped to the gallons of water billed on a monthly basis and investigate significant differences. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

- G. The city failed to bill some utility customers for water and sewer usage. For example, the city failed to bill a local bank \$2,079 for water services provided from June 2004 until October 2006 and for sewer services provided from July 2001 until October 2006. The city also failed to bill the Chamber of Commerce for water usage during the months of July through September 2006 totaling \$351. Billings for these amounts were subsequently sent to these customers in October and November 2006. Further, the city provides free water service for the restrooms located at the dam and to the Chamber of Commerce for the "Welcome Garden". If the city decides to provide free water service, it should formally document its reasons for departing from standard billing procedures. The city should review water and sewer usage and the related billings to ensure all usage is being billed.
- H. The city has not performed a formal review of the water, sewer, and trash rates for several years. The city adopted a new sewer volumetric rate schedule in May 2006 and approved a trash rate increase in December 2005 (see MAR No. 7. part C.); however, formal rate studies were not documented to support the rate increases. Water, sewer, and trash fees are user charges which should cover the cost of providing the related services, but rates should not be set at a level which results in excessive fund balances. The city should perform a detailed review of its water and sewer costs, including depreciation and debt service costs, and set rates to cover the total costs of operation.
- I. In addition to the normal operations of the public works department, the city is providing water and sewer hookup services on private property and charging fees to city residents for material, equipment, and labor. The Public Works Director indicated these fees are charged based on the city's cost; however, the city has not established a statement of costs to adequately set rates for providing those services to the city customers. The Public Works Director indicated that the city

charges "cost" for materials, \$75 an hour for equipment, and \$17 an hour for labor. Further, it appears questionable whether the city should be providing these "privately contracted" services to city residents. The city should request that its attorney review these services and fees to determine whether they should be provided, and if so, establish a statement of costs to adequately set rates to be charged.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure that monthly reconciliations of the amounts billed to amounts collected and delinquent accounts are performed. In addition, ensure adequate documentation to support reconciliations is retained.
- B. Require someone independent of the utility system review and approve all adjustments and ensure adequate documentation is retained of such adjustments.
- C. Ensure sewer and water service is shut-off in accordance with city code.
- D. Maintain a control ledger of sewer and water deposit receipts, disbursements, and balances and reconcile the balances to the total individual sewer and water deposits recorded in the electronic utility system and the sewer and water deposit bank accounts monthly. Any differences should be investigated and resolved.
- E. Segregate the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If proper segregation of duties cannot be achieved, at a minimum, there should be an adequate review of the reconciliations between utility payments deposited and recorded, and an independent review of and approval for adjustments and delinquent account follow-up.
- F. Ensure the gallons of water pumped is compared to the gallons billed on a monthly basis and investigate any significant differences.
- G. Review water and sewer usage and the related billings to ensure all usage is being billed.
- H. Review water, sewer, and trash rates periodically to ensure revenues are sufficient to cover all costs of providing this service, but not set at a level which results in excessive fund balances.
- I. The city should request that its attorney review these services and fees to determine whether they should be provided and if so, establish a statement of costs to adequately set rates to be charged.

## **AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

A. *We agree, to the extent that our software allows; present administration acknowledges that we do not have top notch software, but that is in part due to financial resources. We will do better as soon as we are able.*

B&I. *We agree, this is the first place that the present City Administrator has served which does not require this procedure or that provides this service.*

C&

E-H. *We agree.*

D. *We agree to the degree possible.*

<b>13. Property Tax Procedures</b>
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Significant problems were identified in the control procedures used by the city related to the property tax system. The former and current City Collector did not prepare monthly or annual reports of taxes collected, and the city has not adequately monitored or pursued collection of delinquent taxes. As a result of these weaknesses, there is less assurance that all property tax monies have been properly accounted for.

The City Collector is responsible for billing, collecting, and posting property tax payments to city records; and depositing property tax receipts. The city assesses property taxes on real estate only. Property taxes totaled approximately \$355,000 during the tax year ended February 28, 2006.

A. The 2005 tax book was not retained by the City Collector. Tax books are prepared electronically by the City Collector from assessment data received from the county. In addition, as a result of not retaining the 2005 tax book no independent verification of the tax book information or totals appeared to have been performed by the City Clerk. At our request, the City Collector printed a 2005 tax book. The assessed valuations recorded on the city's tax books totaled \$50,745,264 while the assessment data received from the county totaled \$52,172,850.

Without the tax book, the city can not ensure the proper amount of taxes charged to the City Collector and billed to city residents is complete and accurate. Retention of original records is necessary to ensure the validity of transactions and help account for all monies received.

B. Tax statements for the 2006 and 2005 tax years were not prepared and mailed to city residents until December 18, 2006 and January 10, 2006, respectively. The

City Clerk indicated turnover of city personnel contributed to the untimely mailing of tax statements for the 2005 tax year. Timely mailing of tax statements might help improve the timely collection of property taxes and also provide more assurance that property taxes are being handled properly.

- C. While the city's property tax system is capable of generating monthly and annual reports, none were prepared by the City Collector summarizing the amount of property taxes collected as well as those that remain delinquent. In addition, the City Clerk does not maintain an account book with the City Collector.

Sections 79.310, 94.320, and 94.330, RSMo, require reports to be submitted to the board of aldermen indicating the amount of taxes collected and taxes remaining delinquent. The board is to examine and approve the lists and charge the tax collector with the collection of delinquent taxes. Monthly and annual reports which comply with state law and are classified by type of tax would help provide assurance taxes have been properly collected, written off, or determined to be delinquent.

An account book would summarize all taxes charged to the City Collector, monthly collections, delinquent credits, abatements and additions, and protested amounts. Without such an account book examined by the board, any errors or irregularities that might occur are likely to go undetected. In addition, Section 94.290, RSMo, requires the city clerk to prepare the tax books and charge the city collector with the full amount of taxes levied. Without this proper segregation of duties between the City Clerk and City Collector, the internal control over this process is weakened.

- D. The City Collector makes all additions and abatements to the tax books without review or approval by the Board of Aldermen or City Clerk. Any changes to the tax books (additions or abatements) should be prepared by the City Clerk, approved by the Board of Aldermen, and charged to the City Collector.
- E. The city does not adequately monitor or pursue collection of delinquent taxes. The city has not mailed delinquent tax statements for amounts due and has not conducted sales of real property to collect delinquent taxes on such property, as allowed by state law. We requested listings of delinquent taxes be prepared, and as of October 30, 2006, delinquent taxes totaled to \$25,992. Some delinquent taxes dated back to 1999. Section 140.150 RSMo, provides that all land on which there are delinquent taxes may be offered for sale at public auction, and Section 140.160 RSMo, provides the sale shall not be valid unless initial proceedings are commenced within three years after the delinquency of such taxes.
- F. The City Collector currently charges a one percent penalty per month for delinquent taxes paid, but has no documented support of why these charges are assessed and collected. Section 140.100.1, RSMo, currently provides a penalty of

two percent per month up to a maximum of eighteen percent per year for each delinquent tax bill.

- G. Property tax receipts are not always deposited timely, and the City Collector indicated that she typically holds property tax receipts in a file in the storage room until she has collected a significant amount of taxes. For example, the former City Collector failed to deposit over \$74,400 of property tax receipts received in December 2004 until January 2005. Some of these receipts were held until January 19 before being deposited. In addition, \$941 of property tax receipts received during the time period September 19 through September 28, 2006 was not deposited until October 12, 2006.

In addition, property tax receipts are not posted to the computerized property tax system until a deposit is prepared. The City Collector can enter the date property tax receipts are posted to the property tax system rather than the system assigning the date posted. The ability to enter the date a receipt is posted provides no assurance that property tax receipts are properly posted.

To adequately account for collections and reduce the risk of loss or misuse of funds, deposits should be made on a timely basis. Deposits should be more frequent if significant amounts of cash are collected. In addition, to reduce the risk of theft, loss or misuse of funds, receipts should be kept in a secure location until deposited. Also, to ensure property tax receipts are accounted for properly, all property tax receipts should be posted to the property tax system when received and the property tax system should assign the date property tax receipts are posted.

**WE RECOMMEND** the Board of Aldermen:

- A. Require the City Clerk to prepare and retain the tax books, and document procedures performed to verify the accuracy of the tax book totals.
- B. Ensure property tax statements are prepared and mailed timely.
- C. Require the City Collector to prepare and maintain detailed monthly and annual reports of taxes collected and delinquent taxes. In addition, ensure the City Clerk maintains an account book that summarizes all taxes charged to the City Collector, monthly collections, delinquent credits, abatements and additions, and protested amounts. Further, the reports and account book should be reviewed and approved by the Board of Aldermen.
- D. Ensure the City Clerk prepares and the board approves all tax book additions and abatements.
- E. Adopt policies for the collection of delinquent taxes, including tax sales.

- F. Ensure the penalty for the collection of delinquent property taxes is charged in accordance with state law.
- G. Ensure property tax receipts are deposited in a timely manner, receipts are kept in a secure location until deposited, and property tax receipts are posted to the property tax system when received. In addition, ensure programming changes are made to the property tax system which would restrict the date receipts are posted.

**AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

*A&*

*C-G. We agree.*

*B. We agree. While 2006 could have been gotten out a couple of weeks earlier than it did, we were heavily involved with this audit and submissive to the audit staff demands, which contributed to the two week delay in getting them out.*

<b>14. Closed Meetings, Ordinances, and Resolutions</b>
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City procedures for conducting and documenting closed meetings are not always done in compliance with state law, and improvement is needed in the organization of the city's ordinances.

- A. Improvement is needed in the handling of closed meetings. Numerous closed sessions were held by the board, but the various requirements in Chapter 610, RSMo (the Sunshine Law) regarding closed meetings were not always followed.
  - The minutes of open meetings do not always document the reasons for closing the meeting or the related vote.
  - Some issues discussed in closed meetings did not appear to be allowable per the Sunshine Law. These topics included bids for trash service, police department phones, personal use of city vehicles, approving employee vacation, and uniform wear and personal appearance of police officers.
  - While minutes of closed meetings are now required by state law (effective August 28, 2004), the city failed to provide minutes of several closed meetings held by the board after that date.
  - Decisions made in closed meetings were not always properly disclosed in open meetings, or due to the lack of closed session minutes, it is not known whether any decision was properly disclosed.

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 meeting 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.

- B. Improvement is needed in the organization of the city's ordinances. The city's ordinances have not been codified, thus hindering the city's ability to locate specific ordinances. There were several ordinances missing from the official ordinance books. In addition, during our review of ordinances, we noted the following:
1. City ordinances have not been updated for many resolutions passed by the board during the years ending December 31, 2006 and 2005. For example, resolutions were adopted for various items such as the formation of a tax increment finance commission, a lease purchase agreement with Missouri Association of Municipal Utilities (MAMU), final cost assessments for various NIDs, new sewer rates charged to Lake Region Water and Sewer district, and bond agreements. City officials indicated that these resolutions represent legally binding agreements.
  2. The city has not adopted ordinances to adequately establish the compensation of the city's officials and employees. While the city has adopted general ordinances for appointed officials that state "compensation shall be fixed by the Board of Aldermen," the ordinances do not address the specific compensation to be paid. Ordinances also have not been adopted to establish the compensation of the Board of Aldermen, Mayor, and city employees.
  3. Ordinances setting trash rates charged to city residents have not been adopted.

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

In addition, such items as compensation of city officials and employees and trash rates should be set forth in the ordinances to give taxpayers information on how the city is to be governed. Also, Sections 79.270 and 79.290, RSMo, requires the board of aldermen to fix the salaries of all city officials and employees by

ordinance. To avoid misunderstandings, the board should adopt ordinances which specify the compensation of all city officials and employees.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure minutes document the vote to go into closed session, state the reasons for going into closed meetings and publicly disclose the final disposition of applicable matters discussed in closed meetings. In addition, minutes should be maintained to support all closed meetings and only allowable topics should be discussed in closed meetings.
- B. Update the city's ordinances for any resolutions passed, ensure a complete set of ordinances is maintained, establish the compensation of all city officials and employees by ordinance as required by statute, and adopt ordinances to address trash rates charged to customers.

**AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

*A&B. We will consult with the City Attorney on this recommendation.*

**15.**

**Capital Assets**

The city does not maintain complete and current records for its capital assets including land, buildings, equipment, and furniture. Also, property is not tagged for specific identification, and an annual physical inventory is not performed. Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a detailed description of the assets including the name, make, and model numbers, asset identification numbers, the physical location of the assets, and the date and method of disposition of the assets. These property records should then be compared to the city's insurance coverage and to vehicle titles. In addition, all property items should be identified with a tag or other similar device, and the city should conduct annual inventories.

Without such information, the city can not effectively safeguard its assets. We identified one city vehicle that was not insured from 2002 until October 23, 2006. Additionally, the city was not able to locate four vehicle titles.

Adequate general capital asset records are necessary to secure better internal controls and safeguard city assets which are susceptible to loss, theft, or misuse; to provide a basis for determining proper insurance coverage required on city property; and to ensure titles are maintained for all city vehicles.

**WE RECOMMEND** the Board of Aldermen ensure property records are maintained which include all pertinent information for each asset such as tag number, description, cost acquisition date, location, and subsequent disposition. These property records should be compared to the city's insurance coverage and vehicle titles on hand. The city should also properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory.

**AUDITEE'S RESPONSE**

*The Board of Aldermen indicated they agreed with this recommendation.*

<b>16. Municipal Court</b>
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Many significant problems were identified in the control procedures used by the municipal court to account for court receipts, including the lack of proper segregation of duties or an independent review of accounting records. The Court Clerk did not document a review of the numerical sequence of bond forms or receipt slips upon receipt from the police department, and receipts were not always picked up/deposited intact on a timely basis. Monthly listings of open items (liabilities) were not always prepared for the bond and fine accounts, the Court Clerk has not established procedures to follow-up on old outstanding checks, and court costs were not always transferred/dispensed in a timely manner. Given the court and police department processes approximately \$267,000 annually, overall controls need improvement.

- A. The duties of receiving, recording, and depositing bond, fine, and court costs monies collected by the municipal court division are not adequately segregated. Currently, the Court Clerk performs all of these duties.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing municipal court monies from recording receipts. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent comparison of receipt slips issued to amounts deposited.

- B. The Court Clerk did not document a review of the numerical sequence of bond forms or receipt slips upon receipt from the police department. A bond log is maintained by the police department of all the bond forms issued by police personnel. When bond forms and receipts are picked up by the Court Clerk, there is no documentation that the numerical sequence of the bond forms is accounted for and reconciled with the bond monies received. In addition, the police department maintains three receipt books for miscellaneous fees, one receipt book for each type of receipt. The Court Clerk does not document a review of the numerical sequence of receipt slips issued for each type of miscellaneous fee

(accident reports, breathalyzer tests, and animal licensing fees) upon receipt of the related monies from the police department.

To ensure all bonds and miscellaneous fees are properly receipted and deposited into the bond bank account and transmitted to the city, the court clerk should ensure the numerical sequence of bond forms and receipt slips are accounted for properly and agreed to the monies collected from the police department. To document this reconciliation, the court clerk should sign for the bond forms, receipt slips, and monies received from the police department.

- C. Bond receipts are not picked up for deposit by the municipal Court Clerk on a timely basis. For example, bond receipts of \$600 and \$2,000 collected on January 20, 2006 and June 14, 2005, were not picked up by the Court Clerk and deposited until January 31, 2006 and June 21, 2005, respectively. In addition, miscellaneous receipts were not always picked up for deposit intact by the Court Clerk. We noted instances where checks were picked up, but cash was left in a lock box at the police department. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, all receipts should be deposited intact and in a timely manner.
- D. Fines and court costs collected by the Court Clerk are not always deposited on a timely basis. For example, receipts of \$2,229 and \$7,628 collected on September 28 and 29, 2005, respectively were not deposited until October 4, 2005. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, all receipts should be deposited intact and in a timely manner.
- E. Monthly listings of open items (liabilities) are not regularly prepared and reconciled to the cash balance of the bond and fine accounts. The Court Clerk prepared an open-items listing, at the request of the city's independent auditor, as of December 31, 2005 for the bond account. The open items listing totaled to \$21,197; however, the reconciled balance of the bond account was only \$20,607, resulting in a shortage of \$590.

The reconciled bank balance of the fine account at December 31, 2005 totaled to \$19,393; however, a monthly listing of open items was not prepared.

To ensure that receipts and disbursements are properly handled and monies held in trust by the municipal court are sufficient to meet liabilities, open-items listings should be prepared monthly and reconciled to the cash balance. Any differences identified through the reconciliation process should be resolved in a timely manner. Unidentified or unclaimed monies remaining in the account should be disbursed in accordance with state law.

- F. The December 31, 2005 open items listing included bond receipts totaling \$17,117, which had been held in excess of one year. A review should be made of any bonds posted by persons who failed to make the required court appearance to

determine if the bonds should be forfeited and turned over to the city treasury, as provided by Section 479.210, RSMo. Bonds which cannot be forfeited and remain unclaimed should be turned over to the state's Unclaimed Property Section, as required by state law.

- G. The Court Clerk has not established procedures to follow-up on old outstanding checks. At December 31, 2005, checks totaling \$2,422 and \$2,666 had been outstanding for over a year in the bond and fine bank accounts, respectively. Some of these check date back to 1992.

These old outstanding checks create additional and unnecessary recordkeeping responsibilities. Procedures should be adopted to routinely follow-up on old outstanding checks and reissue them if the payees can be located. If the payees cannot be located, these monies should be disposed of in accordance with state law.

- H. Fines and court costs are not always transferred monthly to the city. For example, \$14,837 collected in September 2005 was not transferred to the city until November 3, 2005. Section 479.080, RSMo, requires fines and court costs be transferred at least monthly to the city treasury.

- I. Crime Victim's Compensation (CVC), Peace Officer Standards and Training Commission (POSTC), and Domestic Violence fees collected by the municipal court are transferred into the city treasury. However, the city does not always disburse court fees to the state and the domestic violence shelter in a timely manner. For example, fees collected in March 2006 and 2005 totaling \$881 and \$1,084, respectively were not disbursed to the state and domestic violence shelter until June 6, 2006.

Section 595.045.3, RSMo, requires 95 percent of the CVC fee to be paid monthly to the state. POSTC and Domestic Violence fees should also be disbursed monthly to the state and the domestic violence shelter.

- J. The Municipal Judge allows defendants to pay fines and court costs over a period of time. A listing of amounts due is prepared by the Court Clerk; however, the Court Clerk does not compare the listing to the individual accounts receivable records to ensure it is accurate. The listing totaled to \$26,369 at November 2, 2006. To facilitate the monitoring of amounts due to the court, to provide information to the Municipal Judge, and to help maximize collections, listings of amounts due should be reconciled on a periodic basis to the individual accounts receivable records.

- K. While the Municipal Judge signs the court docket after case dispositions are recorded for all cases heard in court, court dockets were not always signed when mail-in payments made by defendants pleading guilty were received. To ensure proper disposition of all cases has been entered in the municipal court records, the judge should sign the court dockets after reviewing to ensure their propriety.

- L. The Court Clerk failed to issue warrants or an order to show cause for nonpayment or failure to appear. One case file indicated a warrant had been ordered and issued on January 19, 2006, but the warrant had not been recorded on the warrant system as of January 22, 2007. The Court Clerk indicated she had failed to send the warrant to the police department for processing. In addition, as of January 30, 2007, the Court Clerk had failed to issue a warrant to show cause for nonpayment for three bad checks written to the court in November 2005 totaling \$390. She also failed to turn these checks over to the County Prosecuting Attorney for collection, and as a result of the length of time that has passed; the County Prosecuting Attorney has lost the authority to collect on these bad checks for the city in accordance with state law. Proper and timely issuance of warrants for amounts due to the court and for failure to appear helps to maximize court revenues along with providing equitable treatment for those citizens who are paying fines and court costs when due. In addition, bad checks should be turned over to the County Prosecuting Attorney in a timely manner.
- M. The Court Clerk records the original record of receipt in a one-write receipt book. "White-out" was sometimes used on the one-write receipt book. To provide adequate assurance that all recorded receipts are proper, "white-out" should not be used on the one-write receipt book. If a receipt amount is written in error, the amount on the receipt book should be voided, rewritten, and initialed.
- N. The Court Clerk did not retain copies of deposit slips during the year ended December 31, 2005. To ensure court receipts are properly handled, validated copies of deposit slips documenting the amount of cash and check contained in each deposit should be retained.
- O. Employees of the police department that collect cash bonds and other miscellaneous fees are not bonded. In addition, receipts are not always kept in a secure location at the police department, and some receipt slips used by the police department were skipped and not properly voided. For example, a copy of a receipt slip and the related \$10 in cash received on September 21, 2006 was not on hand at the time of our cash count on October 12, 2006. It was later located in the police officer's vehicle that collected the monies. Failure to properly bond all persons with access to assets exposes the municipal division and the city to risk of loss. In addition, to adequately safeguard receipts and reduce the risk of loss or theft, and properly account for all receipts, monies received should be maintained in a secure location, and skipped receipt slips should be properly voided.
- P. The municipal court and police department do not account for the numerical sequence of tickets issued. The police department tracks the ticket numbers assigned to each officer, but keeps no record of tickets issued. Records indicate that more than 4,000 tickets have been made available to the city from the Missouri State Highway Patrol.

Without a proper accounting for the numerical sequence and ultimate disposition of tickets issued, the court and the police department cannot be assured that all tickets issued were properly submitted for processing. A record should be maintained accounting for the ultimate disposition of each ticket issued to ensure all tickets have been accounted for properly.

Conditions similar to parts A, B, D-G, J, K, O, and P. were noted in our prior report of the Twenty-Sixth Judicial Circuit Municipal Divisions issued in 2003. Many of these conditions have been addressed to the court numerous times.

**WE RECOMMEND** the Municipal Division:

- A. Adequately segregate the duties between available employees and/or establish a documented periodic review of receipt records by an independent person.
- B. Ensure the numerical sequence of bond forms and receipt slips is accounted for properly and agreed with the monies received from the police department.
- C. Deposit bond and miscellaneous receipts intact and in a timely manner.
- D. Deposit fine and court cost receipts in a timely manner.
- E. Prepare monthly listings of open items and reconcile to the cash balance. Any differences should be investigated and resolved in a timely manner. Any remaining unidentified monies should be disbursed in accordance with state law.
- F. Forfeit any bonds for persons who failed to make the required court appearance, and attempt to locate those defendants with unclaimed bonds. Any bond monies remaining unclaimed should be remitted to the state in accordance with state law. Procedures should be established to routinely follow-up on cash bonds remaining on hand over a period of time.
- G. Develop procedures to routinely follow-up on old outstanding checks and reissue them if necessary, or dispose of these monies in accordance with state law.
- H. Ensure fines and court costs are transferred to the city treasury on a monthly basis.
- I. Disburse CVC, POSTC, and Domestic Violence fees in accordance with state law.
- J. Prepare a periodic listing of accounts receivable and reconcile this information to the individual accounts receivable records. This listing should be provided to the Municipal Judge regularly for review.

- K. Require the Municipal Judge to review all court dockets for propriety and sign the dockets.
- L. Ensure warrants are issued when necessary and that all warrants are properly recorded on the warrant system. In addition, establish procedures to adequately follow-up on bad checks received and file complaints with the County Prosecuting Attorney in a timely manner.
- M. Discontinue the practice of using "white-out" on the original record of receipts (one-write receipt book).
- N. Ensure copies of the deposit slips are retained.
- O. Request the city to obtain bond coverage for all persons handling municipal division monies. In addition, ensure the police department maintains monies received in a secure location and skipped receipt slips are properly voided.
- P. Work with the police department to ensure adequate records are maintained to account for the numerical sequence and ultimate disposition of all tickets.

### **AUDITEE'S RESPONSE**

*The Municipal Judge provided the following responses:*

- A. *Currently, fine money is receipted for when received and checked and initialed by a second employee as are the deposits. The deposit slip is then attached to a spreadsheet given to the city accounting clerk. The court clerk requires the police department to receipt for bond money picked up by the clerk. The money is receipted; the deposit slips are written and checked by another employee. Those deposits are made the same day they are received. In addition, the Court Clerk is implementing a log of bond money received to be signed by the police department's records clerk.*
- B. *The court will maintain a separate log of numerical sequence of bond forms and use the procedures described in responses to item A for verification of amounts collected.*
- C. *Bond money will be picked up as soon as possible after the clerk is notified by the police department records clerk that it has been received and will be processed according to the responses to item A.*
- D. *The Court Clerk attempts to deposit all fines and court costs in excess of \$100 the day they are received. Their ability to do so is somewhat dependant upon the volume of the court docket for that particular time period. Every effort is being made to make the deposit as soon as they are received and the deposits are processed in accordance with the procedures outlined in response to item A.*

- E. *The Court Clerk is in the process of reconciling both the bond and fine open items listing and when that process is complete, will turn over any unclaimed monies to the unclaimed property section as required by state law.*
- F. *Following the reconciliation of the accounts referred to in item E., the court clerk will request the Prosecuting Attorney to file motions for bond forfeiture, return bond money to those who are entitled to it and any unclaimed funds will be forwarded to the unclaimed property section.*
- G. *The court clerk is in the process of reviewing the checking account. Checks will be reissued to payees that can be located and unclaimed funds will be forwarded to the unclaimed property section.*
- H. *The city has assigned more personnel to assist the court clerk in her duties and it is the present policy to transfer fine and court costs to the city within two days of month end closing by the court.*
- I. *The addition of more staff will help alleviate the lack of timeliness of these payments, the present policy is to forward the funds monthly.*
- J. *The court will perform a monthly reconciliation of fines due to individual files.*
- K. *The municipal judge signs all individual docket entries for those persons appearing in court and reviews files on a periodic basis for those paying by mail.*
- L. *Currently, warrants are being prepared after each court date. The warrants are signed periodically by the municipal judge. Notices of returned checks are being sent to defendants who are then ordered to appear in court. If they do not appear, warrants will be issued for their arrest. In addition, more staff will help to speed this process.*
- M. *The use of white out will be discontinued.*
- N. *Deposit slips for the year ending December 31, 2005 were maintained by the court clerk, but were not filed in a manner where they could be retrieved.*
- P. *The police department currently produces a list of tickets written on a monthly basis. The list will be inspected and accounting of missing numbers will be done.*

*The Board of Aldermen provided the following response:*

*A-Q. We agree.*

<b>17. Evidence and Seized Property Controls and Procedures</b>
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The police department maintains records and custody of evidence and seized property. A complete control log of evidence and seized property is not maintained nor is an

inventory periodically conducted, and the police department is holding over \$6,100 in seized money of which records could not be found to document the appropriate disposition.

- A. The police department attaches tags to evidence and seized property, which identifies the item and documents the disposition of evidence and property seized, and maintains a computerized log of evidence and seized property; however, the log was not complete nor is an inventory periodically conducted.

A complete log of evidence and seized property should be maintained to ensure these items are adequately safeguarded. Periodically, an inventory should be taken of all the evidence and seized property and reconciled to the log.

- B. The police department is holding over \$6,100 in seized money for various cases. Some of these monies date back to July 1999. No records could be found to document the appropriate disposition of these monies, and the municipal court had no record of these monies being on hand. The Police Chief should obtain written documentation from the court authorizing the disposition of these funds, and dispose of the monies in accordance with court orders.

**WE RECOMMEND** the Board of Aldermen:

- A. Require a complete log of all seized property be maintained. In addition, a periodic inventory should be taken and reconciled to the log.
- B. Obtain written authorization from the court to dispose of these seized monies, and dispose of the monies in accordance with court orders.

**AUDITEE'S RESPONSE**

*The Board of Aldermen provided the following responses:*

*A&B. We agree.*

HISTORY ORGANIZATION AND  
STATISTICAL INFORMATION

CITY OF LAKE OZARK, MISSOURI  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

The city of Lake Ozark is located in Miller and Camden Counties. The city was incorporated in 1966 and is currently a fourth-class city. The population of the city in 2000 was 1,489.

The city government consists of a mayor and a six-member board of alderman. 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 each member of the Board of Aldermen are paid \$300 and \$150 each month, respectively.

Elected Officials	Dates of Service During the Year Ended December 31, 2005
Paul Sale, Mayor (1)	April-December
Gary Weber, Mayor	January-April
Paul Garrison, Alderman (2)	January-December
Jim Elkin, Alderman (3)	January-December
Kerry Gray, Alderman (4)	April-December
Michael Luby, Alderman	January-April
Keeth Blankenship, Alderman (5)	April-December
Jill Wade, Alderwoman	January-April
Elbert Sutton, Alderman (6)	January-December
Steve Dalton, Alderman (7)	January-December

- (1) Paul Sale served until Johnnie Franzeskos was elected in April, 2007.
- (2) Paul Garrison served on the board until Jeff Van Donsel was elected in April, 2006.
- (3) Jim Elkin served on the board until Johnnie Franzeskos was elected in April, 2006. This position has been vacant since April, 2007, when Johnnie Franzeskos was elected Mayor.
- (4) Kerry Gray served on the board until Bill Bolin was elected in April, 2007.
- (5) Keeth Blankenship served on the board until Robert Davis was elected in April, 2007.
- (6) Elbert Sutton served on the board until Larry Senter was elected in April, 2007.
- (7) Steve Dalton served on the board until Donald Langley was elected in April, 2006.

Other Principal Officials	Dates of Service During the Year Ended December 31, 2005	Compensation Paid for the Year Ended December 31, 2005
Charles Clark, City Administrator	October to December	\$ 10,179
John Chadd, City Administrator	January to August	38,659
Rachel Kelley, City Clerk	January to December	39,341
Judy Noser, City Treasurer/Court Clerk	January to December	31,054
Delta Chapman, City Collector (1)	August to December	6,257
Carla Raley, City Collector	January to August	15,168
Rick Sturgeon, Public Works Supervisor	January to December	49,719
Bill Bolin, Building Inspector(2)	January to December	28,645
Jon Hasker, Chief of Police (3)	January to December	43,507
Brian Hey, City Attorney	January to December	19,500
Steven Rives, City Prosecutor	April to December	13,500
Roger Gibbons, City Prosecutor	January to April	6,000
Jon Kaltenbronn, Municipal Judge	April to December	8,900
Robert Seek, Municipal Judge	January to April	3,600

- (1) Julie Deppe was appointed as City Collector in April 2006.
- (2) Bill Bolin resigned in May, 2006. The position remained vacant until December 2006 when Scott Gigrich was appointed as Building Inspector.
- (3) Jon Hasker resigned in August, 2006. Scott Patrick was appointed as Police Chief in August, 2006.

In addition to the officials identified above, the city employed 34 full-time employees on December 31, 2005.

Assessed valuations and tax rates for 2006 and 2005 were as follows:

ASSESSED VALUATIONS	2006	2005
Real estate	\$ 51,218,929	49,214,339

TAX RATE(S) PER \$100 ASSESSED VALUATION	2006	2005
General Fund	\$ .2524	.2524

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

	Rate
General	\$ .0100
Capital improvement	.0050
Transportation	.0050
Sewer	.0050