



Susan Montee, CPA

Missouri State Auditor

---

September 2007

City Of East Lynne, Missouri

Year Ended December 31, 2006



Office Of  
Missouri State Auditor  
Susan Montee, CPA

September 2007

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

-----  
A previous state audit of the city of East Lynne (Report No. 2002-56) made 35 management recommendations to the city. Of those recommendations, 12 have been implemented, 7 have been partially implemented and 16 have not been implemented by the city. While the former board agreed with most of the prior recommendations, little action was taken to implement them. Many of those prior conditions have been repeated in this report.

The city of East Lynne needs to improve its accounting records. The city does not maintain separate funds for the financial activity of its utility operations and restricted funds. The utility operations are separate accounting entities designed to account for specific city activities. Utility receipts should be used only to fund the operations of the respective utility services. In addition, adequate documentation is not maintained to support the allocation of some wage expenses among the various funds, and transfers between funds and/or bank accounts are not always properly classified in the actual receipts and disbursements in the fund ledgers.

Neither the board nor other personnel independent of the cash custody and record keeping functions provide adequate supervision or review of the work performed by the City Clerk and Treasurer. Errors and discrepancies in the accounting records are not always identified, investigated, and resolved, and the board does not receive adequate information on which to base its management decisions. In addition, the city should procure its banking services through a competitive bid process and consider consolidating its bank accounts and CDs.

The city is not properly accounting for sewer receipts and disbursements in accordance with its bond covenant and some required accounts are over-funded. The failure of the city to comply with the bond covenant could allow the bondholders to take legal action to force compliance or immediate payment of all outstanding bonds. Also, the city does not obtain an audit of the sewer receipts and disbursements.

During 2006, the city did not reconcile the total gallons of water billed to the gallons of water pumped. In 2007, the City Clerk started preparing a reconciliation; however, there were significant differences which were not investigated and resolved. In addition, the city does not compare or reconcile gallons of water purchased to gallons of water pumped from the city's water tower. Also, controls over water deposits need to be improved.

(over)

YELLOW SHEET

The Special Revenue Fund (SRF) includes tax monies for the city's street bonds, capital improvement sales tax monies, road and bridge money from the county, and motor vehicle-related receipts from the state. These monies are co-mingled and are not accounted for separately.

The city does not have a policy for procuring professional services. In addition, disbursements were not always supported by adequate documentation. Some purchases by the police chief, including a hand gun costing \$460, appeared questionable.

Potential conflict of interest issues were not properly handled. In May 2004, the board approved renting a building from former Mayor Cox, and paid approximately \$7,000. The rental arrangement was not competitively bid, and the board minutes did not indicate the city was renting from the former mayor. Additionally, during 2006, while Mayor Martin was in office, the city purchased office supplies totaling almost \$600 from his business without competitive bids.

The police chief's employment contract and related benefits are not clear. The city did not report and withhold payroll taxes or pay the employer's share of social security for compensation paid the mayor and board members; health insurance benefits paid to the former police chief; or extra compensation paid to a police officer. The city had nothing to support why these payments would not be considered taxable compensation.

The city needs to improve its controls over capital assets. Purchases and sales of vehicles through the Internet were not properly documented, and the disposition of assets was not formally handled. Additionally, controls over vehicles and fuel usage need improvement.

Also included in the report are recommendations related to budgets and financial reporting, minutes, meetings, and ordinances, and the municipal court controls, records, and procedures.

**All reports are available on our website: [www.auditor.mo.gov](http://www.auditor.mo.gov)**

CITY OF EAST LYNNE, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT .....	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS .....	4-34
<u>Number</u>	<u>Description</u>
1.	Accounting Controls, Records, and Procedures .....5
2.	Utilities .....10
3.	Restricted Funds .....14
4.	Disbursements .....17
5.	Budgeting, Financial Reporting, and Planning .....20
6.	Minutes, Meetings, and Ordinances .....22
7.	Personnel Policies, Procedures, and Records .....25
8.	Capital Assets .....29
9.	Municipal Court Controls, Records, and Procedures .....32
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	35-40

STATE AUDITOR'S REPORT



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

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
City of East Lynne, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of East Lynne. The scope of our audit of the city included, but was not necessarily limited to, the year ended December 31, 2006. The objectives of this audit were to:

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

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; 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 May 2007.

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

The accompanying Management Advisory Report presents our findings arising from our audit of the City of East Lynne.



Susan Montee, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Toni M. Crabtree, CPA
In-Charge Auditor:	Lori Bryant
Audit Staff:	Cara Hoff

MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

CITY OF EAST LYNNE  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

<b>1. Accounting Controls, Records, and Procedures</b>
--

There are numerous weaknesses in the city's accounting controls, records, and procedures. A complete accounting system has not been established and an independent review of the City Clerk's and Treasurer's activities is not performed. Also, checks are not restrictively endorsed upon receipt, receipts are not always deposited on a timely basis, bids are not solicited for banking services, and bank accounts are not consolidated. Finally, the petty cash fund is not operated on an imprest basis.

A. The city needs to improve its accounting records. A complete financial accounting system has not been established.

1. The city does not maintain separate funds for the financial activity of its utility (water, sewer, and trash) operations and restricted funds, as needed. The utility operations are accounted for in the Proprietary Fund, while restricted funds are accounted for in the Special Revenue Fund. Although there are separate categories for receipts and disbursements, the accumulated balances of the respective utility operations and the restricted funds are not accounted for separately.

The utility operations are separate accounting entities designed to account for specific city activities. Utility receipts should be used only to fund the operations of the respective utility services only. Rates for utility services should be set to cover the costs of producing and delivering service (including administrative costs), repaying debt, if applicable, and repairing and replacing infrastructure. (See MAR finding number 2.)

In addition, the use of certain receipts, such as capital improvement sales taxes and state motor vehicle-related receipts, are limited by state law for specified purposes. (See MAR finding number 3.)

Receipts and disbursements associated with specific activities or restricted usage should be recorded in a fund established to account for these activities/usage and to ensure compliance with state law, as appropriate. Complete, organized and timely accounting records are necessary to provide accurate and timely financial information to city officials upon which effective management decisions may be made.

2. Adequate documentation is not maintained to support the allocation of some wage expenses among the various funds. Also, the city retains an administrative fee of \$1.45 from each customer's monthly payment for

trash services; however, the city has not documented the administrative costs of providing trash collection services. With an average of 135 trash customers per month, this administrative fee totals over \$2,300 a year.

The City Clerk's wages are allocated equally between the General Fund and Proprietary Fund, the Treasurer's wages are allocated 75 percent to the General Fund and 25 percent to the Proprietary Fund, and maintenance personnel wages are allocated equally between the General Fund and Special Revenue Fund. Additionally, the compensation of the mayor and board members is paid entirely from the Proprietary Fund. Although city employees use a time clock to record time in and out, no detail of the activities performed by the employee was noted. Consequently, the city has no support or reasons for these various allocations. In addition, the city had no documentation which showed how the administrative fee for the trash service was determined.

The funds of the city are established as separate accounting entities to account for specific activities of the city. Reflecting expenses in the proper fund is necessary to accurately determine the results of operations and/or specific activities; thus, enabling the city to establish the level of taxation and/or user fees necessary to meet operating costs. Also, adequate documentation and proper allocation of expenses is useful for both management and planning purposes. Salary expense should be allocated to the various city funds based on actual time or estimated time based on historical data. Additionally, the city should calculate and document the administrative costs of providing trash collection services. The user fee charged to city residents should be set at a level sufficient to cover the costs of the service.

3. Transfers between funds and/or bank accounts are not always properly classified in the actual receipts and disbursements in the fund ledgers.

For example, the transfer of monies to the General Fund from other funds for the allocation of wage expense is improperly classified as a receipt and disbursement in both the General Fund and the other funds. Also, the same disbursement is sometimes recorded in two funds when money is transferred from one bank account to another account. Although the city's Certified Public Accountant (CPA) prepares adjusting entries to properly classify receipts, disbursements, and transfers when preparing the compiled financial statements, the compiled statements are sometimes prepared months after the end of the city's fiscal year.

The city's way of handling these transactions does not provide the board or citizens with accurate information about the true financial position of city funds in a timely manner. The failure to present accurate financial information decreases the effectiveness of budget to actual reports or the

comparison of historical data as a management tool for the board to monitor the financial condition of the city.

To ensure the proper classification of receipts, disbursements, and transfers and to help ensure accurate financial reports can be prepared and evaluated in a timely manner, the city should develop procedures to properly record the transfer of monies between funds and/or bank accounts.

Complete and adequate accounting records are necessary for the board to adequately monitor the financial condition of the city. The city's compiled financial statements show the cash and/or fund balances of the city's fund have declined each year for several years because disbursements have exceeded revenues. Also, the Proprietary Fund has had a deficit balance for the past several years. The board needs an effective financial reporting system and procedures to monitor budgeted and actual activity. In addition, the city may be headed for financial problems unless action is taken to increase revenues or reduce expenditures.

- B. The board does not provide adequate oversight and monitoring of the city's accounting activities and records.
  - 1. Neither the board or other personnel independent of the cash custody and record keeping functions provide adequate supervision or review of the work performed by the City Clerk and Treasurer.

The City Clerk is responsible for billing, collecting and preparing the deposit for water/sewer/trash receipts and other city receipts, recording utility payments and monitoring accounts for delinquencies, and initiating utility service shutoff orders. The receipts are remitted to the Treasurer for depositing and recording in the city's financial records. The Treasurer is responsible for all record keeping duties of the city such as performing bank reconciliations, maintaining payroll records, recording disbursement information, preparing and distributing checks, and preparing monthly financial reports. Also, the City Clerk and Treasurer co-sign the checks for reoccurring bills before the board approves the payments, and no one independently reviews the invoices and checks to ensure they are in agreement.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are properly accounted for and assets are adequately safeguarded. Internal controls could be improved by timely independent reviews of the work performed the City Clerk and Treasurer, and investigation into unusual items and variances.

2. The board does not perform supervisory reviews of the accounting records. Thus, errors and discrepancies in the accounting records are not always identified, investigated, and resolved, and the board does not receive adequate information on which to base its management decisions.

For example, the summary reports of receipts and disbursements of the various funds do not always agree to the detail records of receipts and disbursements. In addition, the fund balances, which are given to the board along with disbursement information, do not include the certificate of deposit (CD) balances.

To effectively evaluate, monitor, and manage the city's resources, the board needs to ensure that it receives complete and accurate accounting information. A periodic supervisory review of the city's accounting records would help ensure complete and accurate records.

- C. Checks are not restrictively endorsed immediately upon receipt. According to the City Clerk, she endorses the checks when she prepares the deposits. To reduce the risk of loss or misuse of funds, checks should be restrictively endorsed immediately upon receipt.
- D. Receipts are not always deposited on a timely basis. For example, in December 2006, deposits in the Proprietary Fund were made between three to seven days, with deposit totals ranging between \$1,600 to \$4,600. In addition, there were several instances when the city was charged bank fees because sufficient funds were not available to cover the checks issued.

To adequately safeguard receipts and reduce the risk of loss, theft or misuse of funds, deposits should be made daily or when accumulated receipts exceed \$100.

- E. The city has not solicited bids for its banking services nor entered into a written agreement with its depository bank. The city has maintained its bank accounts and Certificates of Deposit (CDs) with the same bank for several years.

To ensure the quality of banking services and interest earnings received are maximized, the city should procure its banking services through a competitive bid process. In addition, the city should enter into a written agreement with its depository bank. All such agreements should require that deposits in excess of Federal Depository Insurance Corporation (FDIC) limits be secured by bank assets pledged to the city. Also, the bank service agreement provisions should include, but not be limited to, any bank fees for check printing, checking account services, and interest rate for invested funds. A written depository agreement helps the city and bank understand and comply with the requirements of any banking arrangement.

- F. The city should consider consolidating its bank accounts and CDs. At December 31, 2006 the city's cash balance totaled approximately \$148,800 and \$60,000 in eight bank accounts and six CDs, respectively. In addition, one account, totaling almost \$39,000 has had no activity since March 2005 and another account had a negative balance of \$4.

Except for separate accounts required by bond covenants, it appears the remaining bank accounts and CDs could be consolidated to help simplify the city's records and reduce the number of accounts that must be monitored and controlled. A large number of accounts requires additional record keeping and increases the likelihood that errors will occur in the handling of funds. Consolidating accounts would also allow funds to be pooled for increased investment opportunities. At December 31, 2006, the city was earning 1 percent interest on its general operating account and rates ranging from 4.9 to 5.75 percent on CDs.

- G. The petty cash fund is not operated on an imprest basis and a ledger is not maintained to support the receipts and disbursements of petty cash. Also, the fund is not reviewed by a person independent of the accounting process. Although the balance of the fund is established at \$100, our cash count on February 6, 2007 found a total of \$110 consisting of cash and invoices. The city's records indicate the fund was replenished for \$59 in 2006.

The petty cash fund should be operated an imprest basis, meaning that cash and the invoices should always total the established balance, and checks issued to replenish the fund should equal the amount of the invoices. In addition, the city should maintain a petty cash ledger documenting receipts, disbursements, and the balance of the petty cash fund. Periodically, the fund should be counted and reconciled to the imprest balance by an independent person to ensure the funds are being accounted for properly, to detect errors, and to prevent these monies from being misused.

Similar conditions to A., B., C., and G. were noted in our prior report, and the board agreed with the issues; however, no action was taken to implement the prior recommendations.

**WE RECOMMEND** the Board of Aldermen:

- A.1. Ensure a complete financial accounting system is established, with specific activities accounted for in separate funds, as appropriate. Additionally, the city should determine and establish the proper balance of the separate funds and maintain the balances in the future.
2. Ensure employee wages and the mayor and board member's compensation are properly allocated to the various funds and are supported by adequate documentation. Additionally, the board should review the city's costs of

administering the trash pick-up service and document the amount of administration costs associated with the service.

3. Develop procedures to ensure the transfer of monies between funds and/or bank accounts are properly classified in the financial records.
- B. Perform timely independent reviews of the work performed by the City Clerk and Treasurer and the city's accounting records. Errors, discrepancies, unusual items and variances should be identified, investigated, and resolved. Additionally, the mayor or a member of the board should ensure checks and invoices are reviewed.
- C. Require the City Clerk to restrictively endorse all checks immediately upon receipt.
- D. Require all receipts be deposited intact daily or when accumulated receipts exceed \$100.
- E. Seek competitive bids for the city's banking services on a periodic basis, and enter into a written agreement with the depository bank.
- F. Consider consolidating the city's bank accounts and CDs to the extent possible.
- G. Maintain the petty cash fund on an imprest basis and ensure the fund is periodically counted and reconciled to the imprest balance by an independent person. A log of petty cash fund transactions should be maintained to properly document the financial activity of the fund.

**AUDITEE'S RESPONSE**

*A,B,*

*F&G. We agree and we will implement these recommendations.*

*C&D. We agree and we have already implemented these recommendations.*

*E. We agree and we will look into implementing this recommendation.*

**2.**

**Utilities**

The city is not in compliance with its revenue bond covenant restrictions. In addition, monthly utility records are not reconciled, gallons of water billed to customers are not reconciled to the gallons of water pumped, and controls over water deposits are not adequate. Also, access to the computerized utility records is not restricted and backup copies of these records are not stored off-site.

- A. The city is not properly accounting for sewer receipts and disbursements in accordance with its bond covenant and some required accounts are over-funded. Also, the city does not obtain an audit of the sewer receipts and disbursements.

In 1986, the city issued a revenue bond for sewer improvements. The bond covenant requires the city to establish certain separate bank accounts and to fund these accounts with transfers from the sewer operating receipts. The agreement required the city to establish 1) a Revenue Fund to handle all sewer income, receipts, and disbursements, 2) a Sinking Fund to handle the payment of the bond principal and interest payments, 3) a Bond Reserve Fund to be maintained while the bonds are outstanding, and 4) a Replacement and Extension Fund to be used to pay any unusual or extraordinary maintenance, repairs, or replacements costs.

1. Although a bank account has been established for the Revenue Fund, the account is not used properly. In addition, the sewer income, receipts, and disbursements are not accounted for in a separate fund.

The city deposits all sewer receipts in a bank account that also includes water and trash receipts, rather than depositing the receipts in the Revenue Fund bank account. Thus, sewer receipts are co-mingled with other utility funds, and this account is used for all water, sewer and trash disbursements. Also, all utility transactions are accounted for in the city's Proprietary Fund. At December 31, 2006, the utility bank account totaled over \$60,000.

The city uses the Revenue Fund bank account to pay the bond principal and interest payments. However, as noted below, these payments should be made from the Sinking Fund. At December 31, 2006, the balance of the Revenue Fund account was \$14,087.

2. The Sinking Fund is not being used to make the bond principal and interest payments and is over-funded. The account is to be funded monthly up to the total needed for the yearly payment, which is \$5,750. The city has invested the funds for the Sinking Fund in a certificate of deposit (CD), and its balance at December 31, 2006 was \$7,329.
3. Both the Bond Reserve and Replacement and Extension accounts are over-funded. These accounts should be funded up to \$5,800. The city has also invested the funds for these accounts in CDs and each balance at December 31, 2006 was \$7,329.
4. The city does not obtain an audit of the accounts, books, and records of the sewer system, as required by the bond covenant and Section, 250.150, RSMo. In addition to being required by state law and the bond covenant, annual audits of the city funds would help ensure city financial transactions have been properly recorded.

The failure of the city to comply with the bond covenant could allow the bondholders to take legal action to force compliance or immediate payment of all outstanding bonds.

The city should use the Revenue Fund to separately account for all sewer receipts and disbursements. The Sinking Fund should be used to pay the bond principal and interest payments and should be funded monthly, up to the amount needed for the yearly payment. The balance of the Bond Reserve Fund and Replacement and Extension Fund can be reduced to \$5,800, and the excess funds used for sewer expenses. Additionally, the sewer receipts and disbursements should be accounted for in a fund ledger, separate from other utility monies, which shows the beginning balances, monthly receipts and disbursements, and ending balances of the sewer accounts. (See also MAR finding number 1.) Also, the city should obtain an annual audit of the sewer accounts.

- B. Although monthly reports comparing amounts billed, collected, and delinquencies are generated from the computerized utility system, the reports are not reconciled to each other or to bank deposits, and discrepancies are not investigated and resolved.

For example, for January 2007 activity, the total receipts per the receipt report prepared for each deposit, were greater than the end-of-month (EOM) allocation receipt report. Additionally, the EOM allocation receipt report did not agree to the month's billing register and EOM receipts report. It appears some of these discrepancies may be due to whether the receipt is a current or delinquent payment.

Monthly accounts receivable listings should be reconciled to beginning accounts receivable, plus billings, less collections and other adjustments. Also, monthly billing/collection reports should be reconciled to each other and agreed to the bank activity. Any discrepancies should be investigated and resolved, in a timely manner.

- C. During 2006, the city did not reconcile the total gallons of water billed to customers to the gallons of water pumped. In 2007, the City Clerk started preparing a reconciliation; however, there were significant differences which were not investigated and resolved. In addition, the city does not compare or reconcile gallons of water purchased to gallons of water pumped from the city's water tower. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile gallons of water pumped to the gallons of water billed on a monthly basis and compare these amounts to gallons of water purchased. Significant differences should be investigated.

- D. Controls over water deposits need to be improved. Adequate records of water meter deposits are not maintained, and the deposits recorded on the city's records are not reconciled to the monies in the bank.

The master deposit list indicates that each customer has a \$100 deposit; however, according to the City Clerk, the amount of the deposit and the date paid may not be accurate for long time customers. At December 31, 2006, the master deposit list totaled over \$15,000. Given the Proprietary Fund balance of over \$100,000, the city needs to determine the accuracy of the list so a portion of that fund's balance can be reserved.

To ensure the city is properly holding water deposits from customers, an accurate list of water deposits held by the city should be maintained, which includes the deposit amount, the date received, and the date and amounts of deposit refunds. The deposit list should be reconciled monthly to the monies held in the bank to ensure records are in balance and meter deposits are properly accounted for.

- E. Access to the city's computerized utility records is not restricted, and the backup copies of these computerized records are not stored off-site.

1. Passwords and user identification codes (IDs) are not used to restrict access to the city's computerized utility billing and collection records. This unrestricted access to these computerized records weakens controls over the city's utility systems and increases the risks of unauthorized use and modification of the data.

The ability to access and change computerized information should be limited to those individuals who need such access for the performance of their duties. Passwords and IDs should be used to restrict access to the computerized utility records and should be changed on a regular basis.

2. Although backup copies of the utility records are prepared on a weekly basis, the backup copies are not stored off-site. Backup copies of computer programs and data are necessary to provide a means for recreating destroyed data. Backup copies should be maintained and stored off-site to provide increased assurance that the city data can be recreated.

Conditions similar to A., C., and D. were noted in our prior report, and the board agreed with these issues; however, little action was taken to implement the prior recommendations.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure compliance with all terms of the bond covenant.

- B. Ensure monthly accounts receivable listings are reconciled to beginning accounts receivable, plus billings, less collections and other adjustments, and the monthly utility billing/collection reports are reconciled to each other. Also, collections should be agreed to bank deposits. Any discrepancies should be investigated and resolved in a timely manner.
- C. Compare the gallons of water pumped to the gallons billed on a monthly basis, reconcile to the gallons of water purchased, and investigate significant differences.
- D. Ensure adequate records of water meter deposits are maintained, including deposits received, disbursed, and the balance, which should be reconciled to the monies in the bank on a periodic basis.
- E.1. Implement a password and ID system which restrict access to the city's computerized utility records. Passwords and IDs should be kept confidential and changed periodically.
  - 2. Ensure backup copies of the computer program and data for the utility system are stored in a secure, off-site location.

**AUDITEE'S RESPONSE**

*A&D. We agree and we will implement these recommendations.*

*B. We agree and we are working on implementing this recommendation.*

*C&E. We agree and we have already implemented these recommendations.*

<b>3.</b>	<b>Restricted Funds</b>
-----------	-------------------------

Funds in the Special Revenue Fund (SRF) are not always accounted for properly, and city records are not maintained in a manner to clearly indicate these funds are utilized as required. In addition, a separate fund and/or accounting has not been established for law enforcement training fees. (See MAR finding number 1.)

The SRF includes tax monies for the city's street bonds, capital improvement sales tax monies, road and bridge money from the county, and motor vehicle-related receipts from the state. These monies are co-mingled and are not accounted for separately.

- A. The city is not in compliance with some terms of their General Obligation Street Bonds agreement. Additionally, the bank balance used in the 2006 tax rate calculation does not appear reasonable.

In 1999, the city voters approved issuing general obligation bonds to be used for the improvement of city streets. Each year the city sets a tax levy, based on an estimate of the revenues to be generated plus the existing fund balance, needed to pay current debt obligations plus a reasonable reserve for the following year's payments, as allowed by state law. In addition, the bond agreement provides the tax money be deposited into a Debt Service Fund, the monies be kept separate and apart from other city funds, and the monies be used solely for the payment of the principal and interest on the bonds. The agreement also requires the city to obtain an annual audit.

1. The city has not established a Debt Service Fund. Rather, these tax monies are deposited in the street bank account and accounted for in the SRF. Since the tax monies for the street bonds are co-mingled with other city funds, the city has little assurance that these funds are used strictly for the payment of bond principal and interest.

The city should establish a Debt Service Fund, as required by its bond agreement. Also, to establish the proper balance for this fund, the city should determine the amount of monies which should have been deposited into the Debt Service Fund and deduct the total bond payments from this amount.

2. The city does not obtain an annual audit. Rather, the city has a CPA compile financial statements. To be in compliance with the bond agreement, the city should obtain an annual audit.
3. The bank balance used on the 2006 tax rate calculation worksheet does not appear reasonable. The city used \$33,790 as the anticipated bank balance of the bond monies at December 31, 2006. However, the actual bank balance of the SRF, excluding capital improvement sales tax monies, was less than \$8,000.

Overstating the monies in the bank in the rate calculation causes the rate to be set at a level lower than necessary. As a result, the city may have used city funds, needed for other purposes, to pay bond payments. The tax levy needs to be properly calculated and set in accordance with state law.

- B. The city needs to better account for its capital improvement sales tax monies. Although the city established a separate bank account for these tax monies, the city did not establish a special trust fund, as required by Section 94.577, RSMo.

In 1996, the city voters passed a one-half of one percent capital improvement sales tax to be used solely for the purpose of funding capital improvements. At December 31, 2006, the capital improvement sales tax bank account totaled almost \$13,000, and the SRF showed capital improvement sales tax receipts of \$6,673.

The city should establish a special trust fund for the capital improvement sales tax monies to account for the receipt, disbursement, and balance of these monies, as required by state law.

- C. The city has not established a separate fund and/or accounting for the receipts and related disbursements of motor vehicle-related receipts received from the state. Article IV, Section 30, of the Missouri Constitution, requires these receipts, apportioned by the state of Missouri, be used for street-related purposes, including policing, signing, lighting, and cleaning of roads and streets.

According to city records, for year ended December 31, 2006, the city received motor vehicle-related receipts totaling \$12,639. Since these receipts are recorded in the SRF, a separate accounting is not maintained and city records did not clearly document that these receipts were spent for street-related purposes.

To ensure compliance with state law, the city should maintain a separate fund and/or separate accounting of motor vehicle-related receipts and ensure these receipts are used only for the purposes allowed by the constitution.

- D. The city has not established a separate fund and/or accounting for law enforcement training (LET) fees. Section 488.5336, RSMo, provides that LET fees should only be used to pay for the training of peace officers or other law enforcement personnel. In addition, the city cannot retain more than \$1,500 of fees for each certified law enforcement officer. Any excess fees should be remitted quarterly to the city's general fund.

Although the city identifies the LET fees and related disbursements in the General Fund with a specific receipt and disbursement category, a balance for the fees is not maintained. Also, in 2006, the city did not record fees consistently in the appropriate category and could not readily determine the total LET fees received. In addition, in March 2007, LET monies, totaling \$2,100, were used to pay for various supplies for the police department. The payment of police supplies is not a proper use of LET monies.

The city should establish a separate fund and/or accounting for LET fees and ensure the fees are used in accordance with state law.

Conditions similar to B. through D. were noted in our prior report, and the board agreed with these issues; however, no action was taken to implement the prior recommendations.

**WE RECOMMEND** the Board of Aldermen:

- A.1. Establish a Debt Service Fund and separate bank account for the taxes collected for the General Obligation Street Bond and ensure these monies are only used to pay the principal and interest on the bonds. Also, the city should determine the amount of monies which should have been deposited into the Debt Service Fund

and deduct the total bond payments from this amount, to determine the proper balance of the fund.

2. Obtain an annual audit of the city's financial statements.
  3. Ensure future debt service tax rates are properly calculated and set in accordance with state law.
- B. Establish a special trust fund to account for the capital improvement sales tax monies.
- C. Establish a separate fund and/or accounting for the motor vehicle-related receipts received from the state, and ensure these receipts are used for their intended purpose, as allowed by state law.
- D. Establish a separate fund and/or accounting for the law enforcement training fees and ensure these fees are used in accordance with state law.

**AUDITEE'S RESPONSE**

A-C. *We agree and we will implement these recommendations.*

D. *We agree and we have already implemented this recommendation.*

<b>4. Disbursements</b>
-------------------------

The city does not have a policy for procuring professional services. In addition, disbursements were not always supported by adequate documentation and some purchases by the police chief were questionable. Also, Form 1099-MISC was not always issued, as needed.

- A. The city has not adopted a policy regarding the criteria for obtaining proposals and selecting firms or individuals to perform professional services. As a result, the city does not always solicit proposals for professional services. In addition, the city has not obtained written contracts for all professional services.

For example, in 2006 the city paid \$3,300 for accounting services, \$7,343 for legal services, \$11,624 for trash hauling, and \$23,453 for management of the city's water/wastewater systems. The city did not have documentation to show that proposals had been solicited for these services, and did not have signed written contracts for the accounting and legal services.

While professional services may not be subject to standard bidding procedures, proposals should be solicited for such services and the best proposal selected based on costs, experience, the type of service to be provided, and any other

relevant factors. The city needs to develop a policy for obtaining professional services. In addition, a written contract, signed by both parties, should specify the services to be provided and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties, rights and responsibilities and to provide protection to all parties. Section 432.070, RSMo, requires all contracts to be in writing.

- B. Vendor invoices or other supporting documentation were not always obtained and/or retained. For example, no invoices were available for police supplies and police training, totaling \$660 and \$200, respectively. Additionally, the city sometimes made payments from billing statements rather than detailed invoices. As a result, the city made an overpayment of \$2,523 when paying from just a billing statement. (The vendor gave the city a credit in the next month.) In addition, the invoices from the current city attorney are not itemized.

All disbursements should be supported by paid receipts and/or vendor provided invoices to ensure the obligations were actually incurred and the disbursement was an appropriate use of public funds. Additionally, to ensure the amount spent on legal expense is appropriate, invoices for legal services should be itemized. The board should ensure adequate documentation is available prior to approval of the payment and payments are made for the proper amount.

- C. Some purchases and procurement procedures of the police chief were questionable.

1. The police chief purchased a hand gun, costing \$460, which he indicated was to be used as a gift. This item was included with other purchases on an invoice submitted to the city. While the city processed and paid for most items, the police chief wrote a personal check about a month later to the vendor for this purchase.

By purchasing the gun in this manner, the police chief may have received the gun at a special price and avoided paying sales tax. A sales tax exemption granted to a municipality should not be used to benefit an individual as this is a violation of the sales tax exemption letter.

2. The police chief does not always submit invoices on a timely basis to the city for payment.

The city allows the police chief to charge uniforms and other police equipment and supplies to city accounts. The police chief receives and approves these invoices and submits the invoices to the city for payment. However, in several instances, invoices were not submitted timely. For example, for one vendor there were 5 invoices, totaling over \$472, which were over 90 days past due and 2 invoices, totaling \$132, which were over

30 days past due. For another vendor, a statement, totaling over \$1,100, received in January 2007 included charges from June 2005.

The city should require that employees submit invoices for payment on a timely basis. Thus, the city could ensure that they are not charged late fees. In addition, the city needs to know the amount of its liabilities in a timely manner in order to properly plan and budget its expenses.

- D. The city has no procedures in place to ensure Forms 1099-MISC are filed with the Internal Revenue Service (IRS) as required. In 2006, the city made payments to individuals or unincorporated businesses for legal services and accounting services, totaling over \$6,000 and \$3,000, respectively, which were not reported to the IRS.

Section 6041 through 6051 of the Internal Revenue Code require that nonwage payments of at least \$600 in one year to an individual or unincorporated business be reported to the federal government on Form 1099-MISC.

A condition similar to A. was noted in our prior report and the board agreed with this issue; however, little action was taken to implement the prior recommendation.

**WE RECOMMEND** the Board of Aldermen:

- A. Adopt a policy requiring the solicitation of proposals for professional services. Adequate documentation of the various proposals received should be maintained, and the best proposal should be selected based on cost, experience, type of service to be provided, and any other relevant information. In addition, the city should enter into formal written contracts for services which specify the services to be rendered and the manner and amount of compensation to be paid, as applicable.
- B. Obtain and retain adequate supporting documentation, including invoices, for all disbursements. Also, invoices for legal services should be itemized.
- C.1. Prohibit individuals from purchasing items for personal use through the city and with the city's sales tax exemption.
2. Require city personnel to submit vendor invoices for payment on a timely basis.
- D. Ensure Forms 1099-MISC are filed as required by the Internal Revenue Code, and file amended forms, as needed, for payments made in prior years.

**AUDITEE'S RESPONSE**

A,B,  
&D. *We agree and we will implement these recommendations.*

C. *We agree and we have already addressed these recommendations.*

<b>5. Budgeting, Financial Reporting, and Planning</b>
--

Significant weaknesses were identified in the city's budgeting, financial reporting, and planning. Budgets do not include all information required by state law and actual disbursements exceeded the budgeted amounts in the Proprietary Fund in 2006. In addition, published financial statements do not include sufficient information and financial reports are not filed with the State Auditor's Office in a timely manner. Finally, the city does not prepare an annual maintenance plan for city streets.

A. The city does not prepare and adopt annual budgets in accordance with statutory provisions. The budgets do not include a budget message, actual receipts and disbursements for the two preceding budget years, or estimated ending available resources. The budgets show only the beginning balance and the current year budgeted receipts and disbursements.

Section 67.010, RSMo, requires the preparation of an annual budget which should present a complete financial plan for the ensuing budget year and Sections 67.010 to 67.080, RSMo, set specific guidelines for the format, approval, and amendments of the annual budget. A complete budget should include separate revenue and expenditure estimations by fund, and include the beginning available resources and a reasonable estimate of the ending available resources. The budget should also include a budget message and comparisons of actual receipts and disbursements for the two preceding years.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific costs 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 disbursements. It will also assist in setting tax levies and informing the public about city operations and current finances.

B. Actual expenses exceeded the \$100,179 budgeted amount in the Proprietary Fund by almost \$43,000 for the year ended December 31, 2006. It appears the board did not detect the overspending because budget to actual comparisons are not prepared and reviewed by the board prior to approving disbursements.

Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted. If there are valid reasons which necessitate excess disbursements, a resolution should be adopted by the governing body setting forth the amount of the budget increase and the facts and reasons for the increase. Budgets are a planning tool and should serve as a guide throughout the year to monitor receipts and disbursements. A periodic comparison of budgeted versus

actual receipts and disbursements is necessary to properly monitor the financial condition of city funds.

- C. The city's published semiannual financial statements do not comply with statutory requirements. In addition, the city did not publish financial statements for the period July to December 2006.

The city published statements of the assets (excluding Certificates of Deposit), liabilities, and fund equity for the various city funds. While this may be useful information, the published financial statements do not include a detailed statement of receipts and disbursements of city funds and the indebtedness of the city.

Section 79.160, RSMo, requires the city to prepare and publish semiannual financial statements, within one month of the end of the period. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statement is published. Complete, accurate, and detailed financial statements are necessary to keep the citizens informed of the financial activity and condition of the city. The financial statements should be published in accordance with state law.

- D. The city does not submit an annual financial statement to the State Auditor's Office on a timely basis. The city filed financial statements, compiled by a CPA firm, for the year ended December 31, 2005, in February 2007, and the financial statements for the year ended December 31, 2006 had not been filed as of June 2007.

Section 105.145, RSMo, requires the city to file an annual report of its financial transactions with the State Auditor's Office, and 15 CSR, 40-3.030 requires unaudited reports to be filed with the State Auditor's Office within four months of the end of the city's fiscal year.

- E. The city does not prepare an annual maintenance plan for city streets. In 2006, the city spent \$8,270 for street maintenance. Additionally, Cass County, through a county sales tax, paid \$10,900 and \$25,500 in 2006 and 2005, respectively, directly to a vendor for city street repair work.

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

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. A plan provides a means to

continually and more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

Conditions similar to A., C., and E. were noted in our prior report, and the board agreed with these issues; however, little action was taken to implement the prior recommendations.

**WE RECOMMEND** the Board of Aldermen:

- A. Prepare annual budgets that contain all information as required by state law.
- B. Refrain from authorizing disbursements in excess of budgeted amounts. If valid reasons necessitate excess disbursements, the original budget should be formally amended. In addition, the board should ensure that complete and accurate monthly budget to actual reports are prepared and used to monitor the city's financial activity.
- C. Ensure the city's published semiannual financial statements present all required financial information as required by state law.
- D. Submit complete and accurate annual financial reports to the State Auditor's Office as required by state law.
- E. Prepare an annual street maintenance plan as part of the budget.

**AUDITEE'S RESPONSE**

*A&B. We agree and we will implement these recommendations.*

*C&D. We agree and we will review state law and comply.*

*E. We agree and we are working on this recommendation at the present time.*

<b>6. Minutes, Meetings, and Ordinances</b>
---

The board's procedures for conducting and documenting board meetings and for establishing and maintaining ordinance records need improvement.

- A. The city needs to improve its policies and procedures related to closed meetings. Various requirements in Chapter 610, RSMo (the Sunshine Law) regarding closed meetings were not always followed.
  - 1. Minutes are not maintained of closed board meetings. Section 610.020, RSMo, provides that minutes of closed meetings should be prepared and retained.

2. Open meeting minutes and related agendas do not document the specific reason(s) for a closed meeting. Typically, the open meeting minutes only indicate the vote to go into "Executive Session". The agendas generally use the same statement to indicate a closed meeting. The statement indicates the board may have an executive session to "discuss personnel, legal, or privileged matters under section 610.021 (1) (3), RSMo."

Section 610.022, RSMo, requires the specific reason(s) for closing a meeting to be announced publicly at an open meeting and entered into the minutes. A statement which includes all issues which might be discussed in a closed session appears to miss the intent of the law. In addition, this law provides that public governmental bodies shall not discuss other business during the closed meeting that differs from the specific reason(s) used to justify such meeting, record, or vote.

3. Some issues discussed in closed meetings did not appear to be allowable per the Sunshine Law. These items included discussing the guidelines for a building code ordinance, the city's budget, and the need to assign a mayor pro tem.

Section 610.021, RSMo, allows matters to be discussed in closed session only if they if they relate to certain specific subjects, including litigation, real estate transactions, and personnel issues. The city needs to ensure only matters specifically authorized by state law are discussed in closed session.

- B. Open minutes did not always include sufficient detail of matters discussed and action taken. For example, the vote and/or whether or not a vote was taken was not always documented, the title and/or number of an ordinance being voted on was not always documented, and the approval of the sale of city property (including a mower) was not documented. In addition, the follow-up of city business was not always documented in subsequent minutes.

Section 610.020, RSMo, requires minutes of meetings be taken and retained by all governmental bodies and to include the date, time, place, members present, members absent, and a record of votes. Minutes serve as the only official permanent record of decisions made by the board. Therefore, it is necessary the minutes be prepared to clearly document all business conducted.

- C. The city ordinances do not appear complete and up-to-date. Additionally, the city has not adopted ordinances required by state law and/or needed to govern the city.

1. The city ordinances are not codified and some ordinances were not in the ordinance book. In addition, the city does not maintain a summary listing of ordinances passed, rescinded, or superseded by a subsequent ordinance.

Thus, it is difficult to determine which city ordinances are currently in effect.

Since ordinances represent legislation passed by the board to govern the city and its residents, it is important that they be maintained in a complete, well-organized, and up-to-date manner. An index of all ordinances passed and rescinded by the city could help keep track of additions and changes made to the city ordinances. A complete set of the original signed ordinances should be maintained at city hall.

2. The city has not adopted ordinances to address some issues required by state law. Although the city has established an ordinance for board members compensation, the city has not established an ordinance for employee compensation, the term of office for the City Clerk, or the powers and duties of other city officers. The last ordinance approved by the board for employee compensation was in 1978 and this ordinance does not reflect the current positions and wages for the city employees.

Also, ordinances have not been adopted which are needed to govern the city. For example, the city has not adopted ordinances regarding part-time employee status, the hiring practices and termination of city employees, allowing police officers that live outside the city limits to take their city-owned patrol car home at the end of their shift, and employee benefits.

Section 79.270, RSMo provides that city officials and employee salaries be set by ordinance and Section 79.320, RSMo, requires the City Clerk's term of office be established by ordinance. Also, Section 79.270, RSMo, provides that "...the salary of an officer shall not be changed during the time for which he was elected or appointed." Thus, the term of office is significant in determining when pay increases are allowable under state law. Finally, Section 79.290 provides that the powers and duties of city officers be established by ordinance. In addition, the city's policies and procedures should be set forth in ordinances to provide guidance and control for the effective and consistent management of city employees and to give the taxpayers information on how the city is to be governed.

- D. The board does not hold public hearings on the city's proposed property tax rate and the rate is not set by ordinance.

Section 67.110, RSMo, requires each governing body to hold at least one public hearing prior to approval of the proposed tax rates at which citizens may be heard. This section also provides guidance on what information is to be included at the public hearing. Sections 94.190.3 and 94.210, RSMo, require the property tax rate be set annually by ordinance.

Conditions similar to A.2 through D. were noted in our prior report, and the board agreed with these issues; however, no action was taken to implement the prior recommendations.

**WE RECOMMEND** the Board of Aldermen:

- A.1. Maintain minutes of closed sessions in accordance with state law.
- 2. Ensure the open minutes and related agenda state the specific reason(s) for going into a closed session.
- 3. Ensure the items discussed in closed sessions are allowed by state law.
- B. Ensure minutes clearly document all business conducted.
- C. Ensure a complete and up-to-date set of codified ordinances is maintained. This would include passing new ordinances where appropriate and required.
- D. Hold a public hearing on the proposed property tax rate and set the rate by ordinance, as required by state law.

**AUDITEE'S RESPONSE**

- A.1. *We agree and we have already implemented this recommendation.*
- A.2,  
A.3,B,  
&D. *We agree and we will implement these recommendations.*
- C. *We agree and we are working on implementing this recommendation.*

<b>7. Personnel Policies, Procedures, and Records</b>
---

The city needs to improve its personnel policies, procedures, and records. Conflict of interest issues were not properly handled and concerns were noted with the police chief's employment contract. Also, some taxable compensation paid to employees was not properly reported and there were errors on some employees' W-2s.

- A. Actual and/or potential conflict of interest issues were not properly handled.

In May 2004, the board needed a temporary city hall and approved renting a building from former Mayor Cox. The rent payments (\$500 per month) continued into 2005 and totaled approximately \$7,000. The rental arrangement was not competitively bid, and the board minutes did not indicate the city was renting from the mayor.

Additionally, during 2006, while Mayor Martin was in office, the city purchased office supplies totaling almost \$600 from his business without competitive bids.

Section 105.454, RSMo, prohibits financial transactions between a city and an officer (or spouse, dependent child, or business and corporate interest of the officer or employee) of the city that involved more than \$5,000 (\$1,500 before August 2005) per year or \$500 per transaction unless there had been notice to solicit proposals and (except for real property) competitive bidding, provided that the bid or offer was the lowest received. In addition, any amounts involving an elected official create the appearance of conflicts of interest and a lack of independence which may harm public confidence in the board and reduce the board's effectiveness.

Discussions and decisions where an actual or potential conflict of interest exist should be completely documented so that the public has assurance that no city official has acted improperly.

B. The police chief's employment contract and related benefits are not clear. The contract provides for a yearly salary of \$21,500, for the period April 1, 2007 to April 1, 2008.

1. Although the police chief was appointed in November 2006, in March 2007, the board for the first time, approved an employment contract for this position. Since an employment contract did not appear necessary in the past, it is questionable why the board saw a need for such a contract at this point and approved the contract a month before municipal elections.

The timing of this contract limited the city's flexibility in establishing the police chief's compensation in relation to his performance and financial condition of the city.

2. Several provisions in the contract are not clear.

- The termination clause does not clearly indicate the amount of compensation, if any, the police chief should receive if the city terminates his employment.
- The annual salary and the provisions for the health and life insurance benefits were handwritten on the contract. However, the board minutes did not show that the salary and benefits were discussed and approved by the board.

Contract provisions should be clearly stated to ensure there are no misunderstandings. In addition, the board's approval and intentions regarding contract provisions should be clearly documented in board minutes.

3. The police chief's time log indicates the number of hours worked each day, however the time sheet does not indicate his start or end time.

The police chief's employment contract provides for a 40 hour work week, with working hours from nine to five. However, the police chief indicated that he mainly works the night shift. There was no documentation that the city approved a change in his work hours or that the board monitored the hours worked.

The board needs to monitor the hours worked by the police chief to ensure the appropriateness of his compensation. In addition, the board should formally approve his work hours, if they differ from the terms of his contract.

4. Although the employment contract provides for various leave including personal days, vacation, sickness, and emergency leave, the city has not established a method to account for the leave earned and used. The city needs to establish a method to account for the benefits provided to the police chief.

- C. The city did not report and withhold payroll taxes or pay the employer's share of social security for compensation paid the mayor and board members; health insurance benefits paid to the former police chief; or extra compensation paid to a police officer. The city had nothing to support why these payments would not be considered taxable compensation.

1. The city did not issue a W-2 to city officials for their compensation or withhold applicable taxes. The compensation paid to the mayor and board members totaled almost \$4,400 for the period May 2006 to April 2007.
2. The city does not require employees to furnish proof of payment of insurance premiums when reimbursing employees for health and life insurance. Additionally, in 2006, the payments were not included on the employee's W-2.

In 2006, the city paid the former police chief \$585 per month (for 5 months) for health related costs. Also, in March 2007, the board approved paying the current police chief \$1,320 (\$330 per month) for him to procure health and life insurance. This payment was for the period November 2006 through February 2007, and since February, the city has continued paying him \$330 per month for insurance.

3. In June 2006, the city paid one of its police officers extra compensation, totaling \$465, for law enforcement during a motorcycle rally; however, the city did not include this extra compensation on the employee's 2006 W-2.

IRS regulations require employers to report taxable compensation on W-2 forms, withhold payroll taxes, and pay the employer's share of social security on the compensation paid to employees. Similarly, Chapter 143, RSMo, includes requirements for reporting compensation and withholding state income taxes. Additionally, IRS regulations provide that when an employer issues a check to an employee to pay for health insurance without requiring proof of payment of premiums, the amount is a taxable fringe benefit.

- D. For three employees, the total federal wages did not agree to the total state wages on their W-2 form; however, the federal wages agreed to the payroll records. The differences ranged from \$450 to \$1,943. City personnel were not aware of the problem until we brought it to their attention. It appears they depend upon the city's accounting software to prepare the W-2s and do not review the W-2s to ensure they are complete and accurate. The city should develop procedures to ensure employees' W-2s are complete and accurate and agree to the city's payroll records.

**WE RECOMMEND** the Board of Aldermen:

- A. Refrain from entering into business transactions with city officials unless there has been public notice and competitive bidding in accordance with state law. Conflict of interest issues should be fully documented so that the public has assurance that no city official has acted improperly.
- B. Ensure its actions do not obligate a future board when approving employment agreements. In addition, the board should ensure the contract terms are specific and clear, and properly approved. Also, the board should monitor the hours worked by the police chief to ensure his compensation is appropriate, and establish a method to account for the various types of leave provided to the police chief.
- C. Contact the IRS for guidance regarding the reporting of the mayor and board members compensation and the life and health insurance payments to employees, and the withholding and payment of applicable payroll and social security taxes. Also, the city should obtain and retain documentation to support the payments of health and life insurance to employees. In addition, the city needs to include all compensation paid to its employees on the employee's W-2. Amended W-2s should be prepared, as needed.
- D. Develop procedures to ensure employees' W-2s are complete and accurate and agree to the city's payroll records.

**AUDITEE'S RESPONSE**

A-D. *We agree and we will implement these recommendations. Additionally, board member Hottle indicated this agreement was a way for the city to secure a qualified person in a position that had seen turnover in the past. The board did not believe a year was excessive.*

**8.**

### **Capital Assets**

The city has not established formal policies and procedures for its capital assets. As a result, various problems existed and errors were noted in the city's capital asset records.

A. The city does not maintain current, complete, and detailed records for its capital assets, including land, buildings, vehicles, equipment, and furniture. Although the city maintains a list of capital assets for insurance purposes, this list is not complete. Office equipment including computers were not included on the list. In addition, property is not tagged for specific identification and an annual physical inventory of the property is not performed.

Adequate capital asset records are necessary to ensure accountability for all items purchased and owned, for determining the proper amount of insurance coverage, and to provide a basis for proper financial reporting.

The city needs to maintain capital asset records 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. All capital assets should be identified with a tag or other similar device, and the city should conduct annual physical inventories and compare to the detailed records. All capital assets should be recorded at historical costs or estimated historical cost, if actual cost is not available.

B. The city needs to improve its policies and procedures when purchasing police cars. The city obtained two used police cars, one in December 2005 and one in June 2006. However, the city had little assurance that the best price was paid for these vehicles.

In September 2005, the board approved paying insurance and fuel for a used 1999 police car, with over 110,000 miles, which had been personally purchased by the city's police officers off the Internet for \$4,851. However, the total cost of the vehicle increased to \$15,994 because over \$1,000 was spent for travel expenses to pick-up the vehicle and over \$10,000 was spent for emergency lights, radar, other equipment and parts and repair to make the car operational. Police Chief Hughes apparently paid for these repairs and submitted documentation to the board. In December 2005, the board approved purchasing the vehicle and paid Chief Hughes \$15,994.

In December 2005, the board also approved the purchase of a second 1999 police vehicle. This vehicle, with over 100,000 miles, was purchased for \$6,038 off the Internet by Police Chief Hughes in December 2005. The board approved paying Police Chief Hughes for this vehicle in June 2006.

City personnel indicated that the board did not investigate the cost of used police cars, or contact the Missouri State Highway Patrol (MSHP). Rather, the board allowed the police officers to handle these purchases. The MSHP sells their used police cars to political subdivisions in Missouri. According to MSHP personnel, cars on the average are sold when they are several years old with about 50,000 miles.

The city should investigate and evaluate the cost of used police cars to ensure that they receive the best value for their costs, and the board should determine the best method to purchase these vehicles.

- C. The city does not have a formal policy for the sale of capital assets. Thus, the city has little assurance that the amounts received for the sale of its capital assets are reasonable.

In December 2005, the board approved the sale of their Dodge Intrepid police car to purchase the second 1999 police car, noted above. However, the board did not indicate the method of sale (e.g. sealed bids, public auction, etc). Thus, the police chief sold the car on the Internet for \$4,051. City personnel indicated that they did not investigate and/or evaluate the trade-in value and/or fair value of the vehicle.

Also, in May 2005, the city sold some capital assets, including a mower in a benefit auction for the police department. The city did not maintain a list of the items sold or their sale price. The city deposited \$539 from this sale.

The city needs to establish formal procedures in this area to ensure the disposition of capital assets is properly handled, approved, and recorded in the capital asset records. These procedures should ensure the method of disposition (e.g. bids, public sale, etc.) allows for participation by the public and provides the best price for the city.

- D. Control over the usage of the police vehicles is not adequate. The city does not maintain mileage and/or usage logs for these vehicles. Additionally, police officers do not always use the city's bulk fuel tank (see below). Mileage and/or usage logs are necessary to document the appropriate use of vehicles and are useful in evaluating fuel costs. In 2006, city records indicated that approximately \$3,400 was spent on fuel for police cars from area gas stations.

The mileage/usage logs should document the beginning and ending odometer readings, destination, and purpose of each trip. These logs should be reviewed by the city management to help ensure vehicles are used for city business, are being properly utilized, and help identify any vehicles that should be replaced. In addition, police officers should use the city's bulk fuel, if possible, so that the logs can be readily reviewed in conjunction with gasoline and other maintenance charges.

- E. Equipment fuel usage logs are not reconciled to fuel purchases and fuel on hand. The city maintains gasoline in a bulk tank for use in city equipment and police vehicles. In 2006, city records indicated that bulk fuel purchases totaled almost \$3,200.

Employees complete fuel usage logs for equipment such as the mower and backhoe, indicating how much fuel was pumped; however, the city does not maintain information regarding the total amount of gasoline pumped from the tank. Also, as noted above, logs are not maintained for police vehicles.

The city should periodically determine and document the number of gallons pumped. To ensure all fuel is properly recorded on the fuel usage logs and accounted for, the city should reconcile gallons of gasoline pumped to gallons of gasoline recorded on equipment/vehicle logs and reconcile the gallons of gasoline purchased to the gallons of gasoline pumped and remaining on hand.

**WE RECOMMEND** the Board of Aldermen:

- A. Maintain complete and detailed capital asset records that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. These records should be updated for any property additions or dispositions as they occur, and all items should be tagged or otherwise identified as city property. In addition, annual physical inventories should be performed and compared to the detailed records.
- B. Investigate and evaluate the costs when purchasing used vehicles to ensure the city receives the best value for their costs. In addition, the board should approve the method of purchase.
- C. Establish formal policies and procedures related to the handling and approval of capital asset dispositions. Complete records should be maintained to support all dispositions and such transactions should be recorded in the detail capital asset records.
- D. Require complete and accurate mileage/usage logs be maintained for each police vehicle. In addition, fuel purchases should be recorded in the log and periodically reconciled to applicable disbursement records. City management should periodically review the logs for completeness and reasonableness.

- E. Maintain records of the gallons of gasoline pumped and reconcile these records to the gallons of gasoline recorded on equipment/vehicle logs and the gallons of gasoline purchased.

**AUDITEE'S RESPONSE**

*A-E. We agree and we will implement these recommendations.*

<b>9. Municipal Court Controls, Records, and Procedures</b>
---

Municipal court controls, records, and procedures need improvement. Duties are not adequately segregated, the Court Clerk is not bonded, and the change fund is not maintained at a constant amount. In addition, traffic tickets are not accounted for properly.

The city's municipal court started operations in July 2006, and court receipts from July to December 2006 totaled over \$22,400. Before July, municipal violations were handled by the Cass County Circuit Court, and in 2006, the circuit court remitted over \$7,900 to the city for municipal violations.

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

Although the Municipal Judge reviews the receipt ledger and deposit slips and the Treasurer ensures the composition of receipts agrees to the deposit slip when making the bank deposit, there is no independent review of the bank statements or month-end bank reconciliations and applicable liabilities prepared by the Court Clerk.

To adequately safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by a documented independent review of the court's bank statements, month-end bank reconciliations, and applicable liabilities.

- B. The Court Clerk is not bonded. The failure to properly bond the Court Clerk exposes the municipal court and the city to risk of loss.
- C. The change fund is not maintained at a constant amount. According to the Court Clerk the balance of the change fund was established at \$75; however, our cash count on February 2, 2007 indicated a \$5 shortage.

The change fund should be maintained at a constant amount. Periodically, the fund should be counted and reconciled to the authorized balance by an

independent person to ensure the funds are being accounted for properly and to detect any errors.

- D. The municipal court and the police department do not account for the numerical sequence of tickets issued. According to the police chief, ticket books are assigned to a police vehicle, rather than to each officer and no record of the tickets issued is maintained. Records indicate that in June 2003 1,000 tickets were made available to the city from the MSHP.

Without 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.

**WE RECOMMEND** the Municipal Court:

- A. Adequately segregate the duties of receiving, recording, and disbursing court monies, to the extent possible and/or establish a documented review of the bank statements, month-end bank reconciliations, and applicable liabilities by an independent person.
- B. Request the city to obtain bond coverage for the Court Clerk.
- C. Maintain the change fund at an authorized amount. The fund should be periodically counted and reconciled to the authorized balance by an independent person.
- D. Work with the police department to ensure adequate records are maintained to account for the numerical sequence and ultimate disposition of all tickets.

**MUNICIPAL JUDGE'S RESPONSE**

- A. *The court clerk and the municipal judge are part-time employees who perform the duties outlined in this section. The court recommends, as an additional safeguard, that the city treasurer either reconcile the month end bank statements or prove an independent review of the court clerk's reconciliation.*
- B. *The city should notify its insurance carrier to add the court clerk to its list of bonded city employees.*
- C. *The court disputes a finding that the cash account/change fund has been short. If it were, the court could have applied to the city to fund the shortage. Notwithstanding, this court recommends that the city treasurer provide an independent reconciliation of the change fund.*

- D. *State statute provides that the police department order, disburse and track all tickets. That is not a municipal court function. However, the court clerk has offered to provide a tracking system to the police department. The court recommends that the city instruct the police department to implement the court's recommended ticket accounting system.*

**AUDITOR'S COMMENT**

- C. The amount represented to us as the municipal court's change fund totaled only \$70 rather than the \$75 they established.

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

CITY OF EAST LYNNE, MISSOURI  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

The city of East Lynne is located in Cass County. The city was incorporated in 1871 and is currently a fourth-class city. The population of the city in 2000 was 300.

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended December 31, 2006, are identified below. The Mayor is paid \$40 for each regular and special meeting and the Mayor and Mayor Pro Tem are paid \$27.50 per hour for time spent in taking care of city business outside the regular and special meetings. The members of the Board of Aldermen are paid \$38.50 for each regular and special meeting and \$25 per hour for time spent in taking care of city business outside the regular and special meetings. The compensation of these officials is established by ordinance, and the annual compensation for May through April is paid in April each year.

Mayor and Board of Aldermen	Dates of Service During the Year Ended December 31, 2006	Compensation Paid
John Naylor, Mayor (1)	August to December	\$ 1,125
David Martin, Mayor (2)	January to August	510
Verna Carver, Alderwoman (3)	January to December	833
Charles Hottle, Alderman	January to December	756
Ethan Shull, Alderman (4)	November to December	346
Bill Rusk, Alderman	July to October	358
Bill Gregg, Alderman (5)	January to June	0
Cleve Sauceman, Alderman (6)	August to December	462

Other Officials	Dates of Service During the Year Ended December 31, 2006	Compensation Paid for the Year Ended December 31, 2006
Teri Riggs, City Clerk	January to December	\$ 10,296
Marilyn McClure, Treasurer	January to December	8,639
William Hughes, Police Chief (7)	November to December	6,463
Roger Trout, Police Chief	January to October	19,109
Laura Ellis, Court Clerk (8)	July to December	2,400
Gerald Furnell, Municipal Judge (9)	July to December	2,700
Gerald Furnell, City Attorney (10)	January to June	4,306
Ronald L. Jurgeson, City Attorney (11)	July to December	2,113

- (1) Roy Sparks was elected Mayor in April 2007.
- (2) David Martin resigned in August 2006. John Naylor was appointed to replace him. Mr. Naylor served as Alderman from January to July 2006.
- (3) Michael Akins was elected Alderman in April 2007.
- (4) Bill Rusk resigned in October 2006. Ethan Shull was appointed to replace him.
- (5) Bill Rusk replaced Bill Gregg in a run-off election in June 2006.
- (6) Cleve Sauceman was appointed to replace Alderman Naylor. Andrea Harris was elected Alderwoman in April 2007.
- (7) Bill Hughes was a part-time police officer from January to October, 2006.
- (8) Laura Ellis is paid \$400 per month as municipal clerk. The municipal court was established in June 2006.
- (9) Gerald Furnell is paid \$450 per month as municipal judge.
- (10) Gerald Furnell was paid \$125 per hour plus expenses for his services as city attorney.
- (11) Ronald Jurgeson is paid \$150 per hour for his services as city attorney and \$100 per hour for his services as the city prosecuting attorney.

In addition to the officials identified above, the city employed 3 part-time employees on December 31, 2006.

Assessed valuations and tax rates for 2006 were as follows:

**ASSESSED VALUATIONS**

Real estate	\$ 1,455,940
Personal property	386,735
Railroad and utility	400,430
Total	<u>\$ 2,243,105</u>

**TAX RATE(S) PER \$100 ASSESSED VALUATION**

	<u>Rate</u>
General Fund	\$ .8224
Debt service	.6654

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

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

The city makes annual principal and interest payments of \$5,750 on its Sewerage System Revenue Bonds. The final principal and interest payment is due in April 2018.

In 2006, the city made principal and interest payment of \$23,985 on its General Obligation Street Bonds. The current principal balance as of December 31, 2006 is \$150,000. The final principal and interest payment is due in March 2015.

A summary of the city's financial activity, taken from the compiled financial statements prepared by the city's Certified Public Accountant for the year ended December 31, 2006, is presented below:

	General Fund	Special Revenue Fund	Total
<b>REVENUES</b>			
Taxes and franchise fees	\$ 41,756	20,831	62,587
Intergovernmental	0	13,445	13,445
Licenses, fees, and permits	2,573	0	2,573
Court and fines	25,681	0	25,681
Interest	1,370	293	1,663
Miscellaneous	5,380	0	5,380
Total Receipts	<u>76,760</u>	<u>34,569</u>	<u>111,329</u>
<b>DISBURSEMENTS</b>			
Salaries	40,228	21,341	61,569
Council fees	4,997	0	4,997
Payroll taxes	3,785	1,845	5,630
Repairs and maintenance	1,730	8,971	10,701
Debt service	0	24,385	24,385
Parks	308	0	308
Utilities	6,671	3,309	9,980
Insurance	4,628	1,462	6,090
Office supplies and rent expense	3,911	0	3,911
Professional fees	7,343	0	7,343
Capital outlay	(235)	7,237	7,002
Election	1,581	0	1,581
Police	15,206	8,131	23,337
Miscellaneous	235	0	235
Total Disbursements	<u>90,388</u>	<u>76,681</u>	<u>167,069</u>
<b>RECEIPTS OVER (UNDER)</b>			
DISBURSEMENTS	(13,628)	(42,112)	(55,740)
<b>OPERATING TRANSFER IN (OUT)</b>			
	8,066	(3,850)	4,216
<b>RECEIPTS OVER (UNDER)</b>			
DISBURSEMENTS AND TRANSFERS	(5,562)	(45,962)	(51,524)
FUND BALANCE, JANUARY 1, 2006	37,831	71,117	108,948
FUND BALANCE, DECEMBER 31, 2006	<u>\$ 32,269</u>	<u>25,155</u>	<u>57,424</u>

	<u>Proprietary Fund</u>
REVENUES	
Charges for services	\$ <u>123,219</u>
EXPENSES	
Water purchases	49,131
Contract services	35,077
Depreciation	16,602
Salaries	5,148
Employee taxes and benefits	445
Repair and maintenance	11,145
Utilities	3,656
Professional fees	10,594
Office expense	3,359
Supplies	3,894
Total expenses	<u>139,051</u>
INCOME (LOSS) FROM OPERATIONS	<u>(15,832)</u>
OTHER INCOME (EXPENSE)	
Interest income	2,308
Interest expense	(2,750)
Miscellaneous income	1,559
Total Other Income (Expense)	<u>1,117</u>
OPERATING TRANSFER OUT	(4,216)
NET LOSS	<u>(18,931)</u>
RETAINED EARNINGS, JANUARY 1, 2006	(106,791)
RETAINED EARNINGS, DECEMBER 31, 2006	\$ <u><u>(125,722)</u></u>