



Susan Montee, CPA
Missouri State Auditor

Village of Brumley



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Office of
Missouri State Auditor
Susan Montee, CPA

March 2008

The following findings were included in our audit report on the Village of Brumley, Missouri.

The village does not prepare or post notices of meetings or tentative meeting agendas as required by state law. Some meeting minutes were not signed, although the meeting minutes do indicate that the minutes from the prior meetings were read and approved. Board minutes do not always indicate the board's approval of bills to be paid, nor is there any other documentation to indicate the board's approval of all disbursements. In addition, village ordinances are not complete and up-to-date.

The village neither publishes nor posts semi-annual financial statements, submits annual financial reports to the State Auditor's Office, nor prepares annual budgets as required by state law. The village does not prepare street maintenance plans, and has not established a separate accounting for motor vehicle-related revenues as required by the Missouri Constitution. Also, it does not track payments that may require preparation of Internal Revenue Service (IRS) Form 1099-MISC.

Monies received for the rental of the village hall are not deposited and expenditure of these monies is made in cash. Some checks received were held and were not cashed in a timely manner. Checks should be restrictively endorsed immediately upon receipt. The village should deposit all rental monies into the village bank account and make all disbursements by check. Holding monies and making disbursements in cash increases the risk of loss, theft, or misuse of funds.

There were transactions where the Board of Trustees approved payments to board members or board members' relatives, giving the appearance of conflicts of interest. In addition, bids or proposals were not solicited for the services obtained from these related parties. Discussion and decisions concerning situations where potential conflicts of interest exist should be completely documented so that the public has assurance that no village official has benefited improperly.

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YELLOW SHEET

VILLAGE OF BRUMLEY

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS	4-11
<u>Number</u>	<u>Description</u>
1.	Board Meeting Minutes, Ordinances, and Bonding5
2.	Financial Reporting, Budgets, and Restricted Revenues6
3.	Rental Monies9
4.	Potential Conflicts of Interest10
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION	12-15

STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

To the Honorable Chairman
and
Members of the Board of Trustees
Village of Brumley, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Village of Brumley. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2007. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the village has adequate internal controls over significant management and financial functions.
3. Determine if the village has complied with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the village, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of 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 instances of noncompliance significant to those 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. Abuse, which refers to behavior that is deficient or improper when

compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

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

The accompanying Management Advisory Report presents our findings arising from our audit of the Village of Brumley.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Mark Ruether, CPA
In-Charge Auditor: David Gregg

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

VILLAGE OF BRUMLEY
MANAGEMENT ADVISORY REPORT –
STATE AUDITOR'S FINDINGS

1. Board Meeting Minutes, Ordinances, and Bonding

Some board meeting minutes were not signed, notices of meetings or tentative agendas were not posted, and the board's review and approval of expenditures was not always documented in the minutes. Village ordinances are not up-to-date and complete and village officials are not bonded.

- A. Some meeting minutes were not signed, although the meeting minutes do indicate that the minutes from the prior meetings were read and approved. Board minutes should be signed by the preparer and by the board chairman to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- B. The village does not prepare or post notices of meetings or tentative meeting agendas. Section 610.020, RSMo, requires that a tentative agenda and a meeting notice be posted at least 24 hours prior to all meetings of a public governmental body. The village should ensure that copies of agendas and meeting notices are retained to document compliance with state law.
- C. Board minutes do not always indicate the board's approval of bills to be paid, nor is there any other documentation to indicate the board's approval of all disbursements. While board approval is obtained for most non-recurring items, the board does not obtain a listing or other summary of all village disbursements. Expenditures made from village funds should be reviewed and approved by the Board of Trustees before payment is made to ensure all disbursements represent valid operating costs of the village. To adequately document the board's review and approval, a complete listing of all bills to be paid should be prepared and included with the board minutes.
- D. The village ordinances are not complete and up-to-date. Village officials have custody of ordinances, but most ordinances are old, not filed in an orderly manner, and not sequentially numbered, thus hindering the village's ability to locate specific ordinances. Also, an index of all ordinances passed and rescinded by the village is not maintained which makes it difficult for the village to determine which ordinances are still active and which have been rescinded.

Since ordinances represent legislation which has been passed by the board to govern the village and its residents, it is important that the ordinances be maintained in a complete and up-to-date manner. An index of all ordinances passed and repealed by the village could help keep track of additions and changes made to the village ordinances.

- E. No village officials are bonded. Village checks require two signatures, with the Chairman and the Treasurer authorized to sign checks. In addition, the Secretary collects monies for the rental of the village hall. Failure to properly bond all persons with access to assets exposes the village to risk of loss. The board should ensure all officials in positions of handling village monies are adequately bonded or consider a blanket bond to cover all officials.

WE RECOMMEND the Board of Trustees:

- A. Ensure meeting minutes are signed by the preparer and the board chairman to attest to their completeness and accuracy.
- B. Ensure notices and tentative agendas of all board meetings are posted and retained.
- C. Review and approve all expenditures of village funds prior to the disbursements being made.
- D. Update and codify the village's ordinances and ensure a complete set of ordinances is maintained. In addition, the village should consider establishing an index of all village ordinances passed and rescinded, and ensure all ordinances are up-to-date and are being enforced.
- E. Obtain bond coverage for officials with access to village assets.

AUDITEE'S RESPONSE

- A&B. *We agree and will implement these recommendations.*
- C. *We agree, however, some bills may need to be paid prior to the monthly board meetings to avoid late payment fees. For any such bills, we will include these on the listing of bills to be paid so the board is aware of all payments made.*
- D. *We agree and have already started organizing the ordinances.*
- E. *We agree and will check into obtaining bond coverage.*

2. Financial Reporting, Budgets, and Restricted Revenues

The village does not publish or post semi-annual financial statements nor submit annual financial reports to the State Auditor's Office as required by state law. The village does not prepare budgets or street maintenance plans, has not established a separate accounting for motor vehicle-related revenues, and does not track payments which may require preparation of Internal Revenue Service (IRS) Form 1099-MISC.

- A. The village does not publish or post semi-annual financial statements. Section 80.210, RSMo, requires that the Board of Trustees prepare and publish semi-annual financial statements in a local newspaper, or if there is no local newspaper, to post semi-annual financial statements in at least six of the most public places in the village. In addition, Section 80.220, RSMo, states that the village can be fined if the Chairman of the Board neglects to publish or post such statements.
- B. The village has not submitted annual financial reports to the State Auditor's Office. The village submitted an annual report for the year ending June 30, 2007, but prior to that, reports had not been filed since 1996. Section 105.145, RSMo, requires political subdivisions to file annual reports of the financial transactions of the political subdivision with the State Auditor's Office within the time prescribed by the State Auditor (currently within four months of the end of the fiscal year for un-audited financial statements and within six months of the end of the fiscal year for audited financial statements).
- C. The village does not prepare annual budgets. Section 67.080, RSMo, provides that no expenditures of public monies shall be made unless it is authorized in the budget.

Sections 67.010 through 67.080, RSMo, set specific guidelines as to the format, approval, and amendment of the annual operating budget. 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 village operations and provide a means to effectively monitor actual costs and revenues.

- D. An annual maintenance plan for village streets has not been prepared. While the village spent no money on street maintenance during the year ended June 30, 2007, street maintenance expenses have been incurred in prior years and the board indicated that future street maintenance will be performed. 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 village residents.

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

- E. The village deposits all state motor vehicle-related revenues into its checking account and does not separately account for these revenues. Article IV, Section

30 of the Missouri Constitution requires that motor vehicle-related revenues apportioned by the State of Missouri be expended for street-related purposes, including policing, signing, lighting, and cleaning of roads and streets. For the year ending June 30, 2007, the village received \$4,399 in state motor vehicle-related revenues and spent \$200 on snow removal; however, no other street-related expenses were noted. The village should establish a separate fund or separate accounting to ensure the motor vehicle-related revenues are spent in accordance with the state constitution.

- F. The village has not established procedures to track payments which may require preparation of IRS Form 1099–MISC. As a result, the village did not prepare these forms for payments for legal services totaling \$800 and \$925 for the years ended December 31, 2007 and 2006, respectively, and for park mowing and maintenance totaling \$870 for the year ended December 31, 2007.

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

WE RECOMMEND the Board of Trustees:

- A. Publish or post semi-annual financial statements as required by state law.
- B. Submit annual reports of financial transactions to the State Auditor's Office as required by state law.
- C. Prepare annual budgets which include all information required by state law and to provide a complete financial plan for the village.
- D. The village should prepare a formal maintenance plan for village streets at the beginning of the fiscal year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.
- E. Ensure restricted revenues are used only for their intended purposes.
- F. Ensure payments which may require an IRS form 1099-MISC are tracked and those payments totaling greater than \$600 to nonemployees and unincorporated business are properly reported to the IRS.

AUDITEE'S RESPONSE

- A. *We agree and will implement this recommendation.*
- B. *We agree and will continue to send annual financial reports to the State Auditor.*

- C. *We agree and plan to prepare a budget for the upcoming fiscal year.*
- D. *We agree and will establish a maintenance plan in conjunction with the annual budget.*
- E. *We agree and will establish a separate accounting of these revenues.*
- F. *We agree. Forms 1099 have already been issued for 2007 payments.*

3. Rental Monies

Monies received for the rental of the village hall are not deposited and expenditure of these monies is made in cash. Some checks received were held and were not cashed in a timely manner.

- A. The village receives monies for the rental of the village hall which are not deposited. The monies received are held by the Village Secretary who makes disbursements of these funds in cash. A ledger of transactions is kept, which indicated total receipts of \$430 (from approximately 15 rentals) and total disbursements of \$463 for the year ended June 30, 2007, and a balance of \$385 at June 30, 2007. Disbursements are made to purchase various village office and cleaning supplies, and the Village Secretary maintains receipts or vendor invoices for the disbursements.

Holding monies and making disbursements in cash increases the risk of loss, theft, or misuse of funds. The village should deposit all rental monies into the village bank account and make all disbursements by check.

- B. Some checks received for rentals were being held and were not cashed. A cash count on January 8, 2008, noted the village was holding three checks of \$35 each (totaling \$105) with the check dates ranging from January 28 to September 9, 2007. In addition, the checks were not restrictively endorsed.

To reduce the risk of loss, theft, or misuse of funds, all monies should be deposited on a timely basis and checks should be restrictively endorsed immediately upon receipt.

WE RECOMMEND the Board of Trustees:

- A. Deposit all rental monies in the village bank account and make all disbursements by check.
- B. Deposit all receipts timely and restrictively endorse all checks.

AUDITEE'S RESPONSE

- A. *We agree and will implement this recommendation.*
- B. *These checks have now been cashed.*

4. Potential Conflicts of Interest

The following transactions represent the appearance of conflicts of interest where the Board of Trustees approved payments to board members or board members' relatives. In addition, bids or proposals were not solicited for the services obtained from these related parties.

- A. During the year ended June 30, 2007, a board member was paid \$796 for mowing the village park and installing park equipment. No bids were solicited for these services, and there is no documentation as to whether the board member or his wife, the Board Secretary, voted to approve these payments or abstained from voting. On August 8 and October 9, 2007, the board approved payments to this board member of \$105 and \$90, respectively, for mowing and maintenance of the village park, and the minutes indicate both the board member and his wife voted to pay these invoices.

Section 105.458, RSMo, states that no member of a governing body of any political subdivision shall perform any service for the political subdivision for compensation other than the compensation provided for the performance of his official duties.

- B. On September 19 and October 24, 2006, the village paid \$500 and \$425, respectively, for legal services to the Village Attorney, who is the son of the former Board Treasurer. There is no documentation as to whether the former Board Treasurer voted to approve these invoices in either instance, as the minutes do not indicate the specific votes taken.

The former Board Treasurer's term expired in April 2007, and the board continues to use the services of this Village Attorney; however, the board does not periodically solicit proposals for legal services. During the year ended June 30, 2007, the Village Attorney was paid a total of \$1,525 for legal services.

Discussion and decisions concerning situations where potential conflicts of interest exist should be completely documented so that the public has assurance that no village official has benefited improperly. In addition, soliciting bids or proposals helps ensure the village receives fair value for the money spent on these services.

WE RECOMMEND the Board of Trustees avoid transactions that represent actual conflicts of interest or the appearance of a conflict of interest. If a relative of a village

official is considered for a contractual situation with the village, that official should abstain from voting on the approval of the contract and that action should be adequately documented in the minutes. In addition, the board should solicit bids for mowing services and periodically solicit proposals for legal services.

AUDITEE'S RESPONSE

The person who previously provided mowing services had left town and the village needed someone to provide this service on short notice. In the future, we will ensure that board members abstain from voting to approve payments to related parties. We will also consider obtaining bids for mowing services and periodically review other options for legal services.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

VILLAGE OF BRUMLEY
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The village of Brumley is located in Miller County. The village was incorporated in 1926. The population of the village in 2000 was 102.

The village government consists of a five-member board of trustees. The members are elected for 2-year terms. The chairman, treasurer, and secretary are appointed by the board from the members. The Board of Trustees during the year ended June 30, 2007, are identified below.

Board of Trustees	Dates of Service During the Year Ended June 30, 2007	Compensation Paid for the Year Ended June 30, 2007
Jay Prince, Chairman (1)	April 2007 to June 2007	\$ 0
Paul Bowden, Treasurer (1)	July 2006 to June 2007	0
Mary Jo Shelton, Treasurer	July 2006 to April 2007	0
Joyce Witt, Secretary (2)	July 2006 to June 2007	0
Laura Scott, Secretary	July 2006 to April 2007	0
Ted Jones, Member	April 2007 to June 2007	0
Jim Witt, Member (3)	July 2006 to June 2007	796

Other Officials	Dates of Service During the Year Ended June 30, 2007	Compensation Paid for the Year Ended June 30, 2007
Kevin Shelton, Village Attorney (4)	July 2006 to June 2007	\$ 1,525

- (1) Paul Bowden was Chairman prior to April 2007 and was appointed Treasurer in April 2007.
- (2) Joyce Witt was appointed Secretary in April 2007.
- (3) Compensation for mowing the village's park and installing park equipment.
- (4) Payments are made by the village to Shelton Law Firm when legal services are rendered and billed to the village.

The village did not have any employees during the year ended June 30, 2007.

Assessed valuations and tax rates for 2007 and 2006 were as follows:

ASSESSED VALUATIONS	<u>2007</u>	<u>2006</u>
Real estate	\$ 366,648	332,118
Personal property	73,461	66,436
Total	<u>\$ 440,109</u>	<u>398,554</u>

TAX RATE PER \$100 ASSESSED VALUATION

	<u>2007</u>	<u>2006</u>
General	\$.3902	.4132

TAX RATE PER \$1 OF RETAIL SALES

	<u>Rate</u>
General	\$.01

A summary of the village's financial activity for the year ended June 30, 2007, is presented on the following page:

RECEIPTS

Property taxes	\$	1,794
Sales taxes		6,872
Motor fuel and motor vehicle fees		4,399
Federal grant		11,250
Interest		950
Insurance claim		25,994
Building rental		<u>430</u>
Total Receipts		<u>51,689</u>

DISBURSEMENTS

Building repair		20,096
Building supplies		463
Election expense		179
Snow removal		200
City park		2,734
Legal fees		1,525
Electricity		1,035
Insurance		1,314
Trash hauling		843
Miscellaneous		<u>87</u>
Total Disbursements		<u>28,476</u>

Receipts Over (Under) Disbursements		23,213
Cash Balance, July 1, 2006		<u>43,250</u>
Cash Balance, June 30, 2007	\$	<u><u>66,463</u></u>