



Susan Montee, CPA
Missouri State Auditor

Village of Phillipsburg



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Office of
Missouri State Auditor
Susan Montee, CPA

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

The Village of Phillipsburg operates a sewer system that provides service to approximately 100 customers with sewer system operating revenues in excess of \$30,000 annually. Many significant problems were identified in the control procedures related to the sewer system. The village does not perform adequate monthly reconciliations of total amounts billed, payments received, and amounts unpaid. Ledger cards for each customer were maintained in an unorganized manner. An independent approval of adjustments made to customer accounts is not always performed, controls over sewer deposits are in need of improvement, and there is not adequate segregation of duties related to the village's sewer system. The village also has not performed a formal review of the sewer rates for several years.

The village's budgets were not complete, and actual expenditures exceeded budgeted expenditures for the General Fund and the Sewer Operating Fund for the year ended December 31, 2006. In addition, the budgets for the years ended December 31, 2007 and December 31, 2006 were not approved until July 23, 2007 and March 21, 2006, respectively. The village's published semi-annual financial statements for the six months ended June 30, 2007 were incomplete and the annual financial report to the State Auditor's Office for 2006 did not contain all required information.

The village does not have a formal bidding policy. During the year ended December 31, 2006, bids were either not solicited or bid documentation was not retained in some instances. In addition, the village did not always enter into written contracts defining services to be provided and benefits to be received. Further, vendor invoices or other supporting documentation were not retained for some village expenditures.

Improvement is needed in the handling of closed meetings. Also, minutes from both open and closed meetings did not always include sufficient detail of matters discussed.

Also, included in the audit report are recommendations related to accounting controls and procedures, untimely audits, restricted revenues, and capital assets.

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YELLOW SHEET

VILLAGE OF PHILLIPSBURG

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

To the Honorable Chairperson
and
Members of the Board of Trustees
Village of Phillipsburg, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Village of Phillipsburg. The scope of our audit included, but was not necessarily limited to, the years ended December 31, 2007 and 2006. 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 Phillipsburg.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

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

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

VILLAGE OF PHILLIPSBURG
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Sewer System Controls and Procedures
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Many significant problems were identified in the control procedures related to the sewer system. The village does not perform adequate monthly reconciliations of total amounts billed, payments received, and amounts unpaid, and ledger cards maintained for each customer were maintained in an unorganized manner. An independent approval of adjustments made to customer accounts is not always performed, controls over sewer deposits are in need of improvement, and there is not adequate segregation of duties related to the village's sewer system. The village also has not performed a formal review of the sewer rates for several years.

The village operates a sewer system that provides service to approximately 100 customers. The Public Water Supply District Number 3 of Laclede County reads the district's water meters and provides this usage information monthly to the village and the village bills for sewer services. The Village Clerk maintains a manual ledger for each customer to record usage, amounts due, paid, and delinquent. The Village Clerk generates and mails the monthly sewer bills, prepares the customer's ledger, and receives payments. An assistant village clerk helps with these duties. The Village Treasurer, who is also the Village Clerk's husband, deposits the sewer payments. The sewer system operating revenues were in excess of \$30,000 for the year ended December 31, 2006.

- A. The Village Clerk attempts to perform a monthly reconciliation of total amounts billed, payments received, and amounts unpaid for sewer services. However, the format of these reconciliations was not consistent and the reconciliations regularly contained unexplained differences. For example, the reconciliation for June 2007 did not appear to include delinquent amounts billed and contained an unexplained difference of \$2,079. Further, the village had two different reconciliations dated November 2007 with one showing an unidentified difference of \$335 and the other showing an unidentified difference of \$289. These two reconciliations appeared to be for different months with one being dated incorrectly.

Monthly reconciliations of total amounts billed, payments received, and amounts unpaid for sewer services, are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. These reconciliations should be documented in a clear and consistent manner with any discrepancies identified and resolved in a timely manner.

- B. Manual individual customer ledger sheets prepared by the Village Clerk were not always maintained in an organized and understandable manner. It was sometimes difficult to determine the amounts billed, paid, and delinquent without

interpretation from the Village Clerk. Accounting records should be maintained in a manner to ensure sewer fees are properly and easily accounted for.

- C. There is not always independent approval of adjustments posted to the sewer accounting records by the Village Clerk. To ensure that all adjustments are valid, someone independent of receipting and recording functions should review and approve all adjustments, and proper supporting documentation should be maintained of such adjustments.
- D. Controls over sewer deposits should be improved. Sewer deposits are recorded on each customer's ledger; however, a listing of deposits on hand is not prepared and reconciled to the sewer deposit bank account which had a balance of \$3,818 at December 31, 2006. As a result, there is no assurance that the records are accurate or complete.

The village can improve controls over sewer deposits by maintaining a control ledger of all sewer deposit receipts, disbursements, and balances and reconciling the balances to the sewer deposit bank account monthly. Any differences should be investigated and resolved.

- E. Adequate segregation of duties does not exist related to the village's sewer system. The Village Clerk prepares billings, receives and records payments on customer ledgers, and prepares deposits. As noted above, the Village Treasurer, who is also the Village Clerk's husband, deposits the sewer receipts.

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

- F. The village has not performed a formal review of the sewer rates for several years. The village adopted a new sewer rate plan in April 2006; however, formal rate studies were not documented to support the rate changes. Sewer fees are user charges which should cover the cost of providing the related services, but rates should not be set at a level which results in excessive fund balances. The village should perform a detailed review of its sewer costs, including depreciation and debt service costs, and set rates to cover the total costs of operation.

WE RECOMMEND the Board of Trustees:

- A. Ensure monthly reconciliations of total amounts billed, payments received, and amounts unpaid for sewer services, are documented in a clear and consistent manner and ensure any discrepancies identified are resolved in a timely manner.
- B. Ensure accounting records are maintained in a manner to properly and easily account for sewer fees.
- C. Require an independent review of all adjustments to customer sewer accounts be performed and ensure adequate documentation is retained of such adjustments.
- D. Maintain a control ledger of sewer deposit receipts, disbursements, and balances and reconcile the balances to the sewer deposit bank account monthly. Any differences should be investigated and resolved.
- E. Segregate the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If proper segregation of duties cannot be achieved, at a minimum, there should be an adequate and independent review of the reconciliations between utility payments deposited and recorded.
- F. Review sewer rates periodically to ensure revenues are sufficient to cover all costs of providing this service, but not set at a level which results in excessive fund balances.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *We will continue performing the reconciliation and will ensure its accuracy in the future.*
- B. *We will review the records being maintained and make improvements as necessary.*
- C. *We will ensure to document the board's approval of all adjustments in the minutes.*
- D. *We are working on preparing a list of deposits held and reconciling it to the bank account monthly.*
- E&F. *We will consider these recommendations.*

2. Budgets, Financial Statements, and Planning

The village's budgets were not complete, actual expenditures exceeded budgeted expenditures for the General Fund and the Sewer Operating Fund, and budgets were not

approved timely. Financial statements and annual financial reports prepared by the village were inaccurate and incomplete.

- A. The village's budgets were not complete. The village's 2007 and 2006 budgets did not include the Sewer Replacement and Extension Fund, the Sewer Debt Service Fund, and the Sewer Construction Fund. In addition, these budgets did not include a budget message, budget summary, actual revenues and expenditures for the two preceding budget years, the beginning and the estimated ending available resources, or the village's indebtedness. The village's budget only included estimated revenues and expenditures for the upcoming and preceding year and actual revenues and expenditures for the preceding year.

Section 67.010, RSMo, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing year. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of village operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures.

- B. Actual expenditures exceeded budgeted expenditures for the General Fund and the Sewer Operating Fund for the year ended December 31, 2006 by \$1,275 and \$1,277, respectively, and the board did not comply with the requirements of state law regarding the excess expenditures. The Board of Trustees does not periodically compare actual revenues and expenditures to the budgeted amounts, and thus does not monitor overall activity. Section 67.040, RSMo, indicates a political subdivision shall not increase the total amount authorized for expenditure from any fund, unless the governing body adopts a resolution documenting the reasons making the increase necessary and approves or adopts a resolution or ordinance to authorize the expenditures.
- C. The budgets for the years ended December 31, 2007 and December 31, 2006 were not approved until July 23, 2007 and March 21, 2006, respectively. Section 67.070, RSMo, requires that if a new budget is not adopted by the beginning of the new year then the board should operate under the prior year's budget. To be of maximum benefit to the taxpayers and the village, the budget should be adopted prior to the beginning of the fiscal year.
- D. The village's published semi-annual financial statements for the six months ended June 30, 2007 were incomplete, and financial statements were not published for the year ended December 31, 2006. Further, the annual financial report to the State Auditor's Office for 2006 included inaccuracies and did not contain all required information.

The published financial statements for the six months ended June 30, 2007 did not include activity of the Sewer Replacement and Extension Fund, the Sewer Debt

Service Fund, the Sewer Construction Fund, and the Sewer Deposit Fund; and financial statements were not published for the year ended December 31, 2006. In addition, the required annual financial report to the State Auditor's office did not include these funds or the indebtedness of the village. At December 31, 2006, the village had approximately \$212,000 in debt. Further, the financial statement summary section of the annual financial report to the State Auditor's Office was inconsistent with the detailed information presented for the General Fund as total receipts were \$5,000 higher in the summary than the detail. In addition, information in the financial statement summary section, for the CART Fund, contained a \$206 mathematical error. There was also no documented evidence that the annual report to the State Auditor's Office was reviewed and approved by the board.

Section 80.210, RSMo, requires the chairman of the board of trustees to prepare and publish semiannually, receipts and disbursements of the village or post the statements in six of the most public places in the village. In addition, Section 105.145, RSMo, requires the village to file an annual financial report with the State Auditor's Office which is to include a statement of indebtedness. Complete and accurate financial statements and reports are necessary to keep the citizens informed of the financial activity and condition of the village. Also, the board should review and approve financial statements and annual reports to ensure their accuracy.

WE RECOMMEND the Board of Trustees:

- A. Ensure budgets are prepared for all funds, and ensure budgets contain all information as required by state law.
- B. Periodically compare year-to-date expenditures with budgeted amounts to monitor the village finances and to ensure actual expenditures do not exceed budgeted amounts. If it is necessary to exceed budgeted expenditures, ensure compliance with the requirements of state law.
- C. Ensure budgets are prepared timely and in compliance with state law.
- D. Publish complete and accurate financial statements that provide the citizens an account of all of the financial activity, and ensure annual reports to the State Auditor's Office are complete, accurate, and include indebtedness of the village by documenting their review.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *Part of this has been implemented, and we will take steps to implement the rest.*

- B. *We will take steps to better monitor expenditures and will ensure the budget is amended as necessary.*
- C. *This will be done in the future.*
- D. *This recommendation has been implemented.*

3. Expenditures, Written Agreements, and Collateral Securities

The village does not have a formal bidding policy, and Forms 1099-Miscellaneous were not always prepared. The village does not have formal written agreements with its sewer superintendents and with an individual who performed general maintenance work. Vendor invoices and adequate supporting documentation were not obtained or retained for some expenditures, and invoices were not always marked paid or otherwise cancelled. Invoices were not always paid and monthly payments were not always made in a timely manner. The village did not require the bank to pledge adequate collateral and does not have a written agreement with its current depository bank.

- A. The village does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. The village solicited bids for such items as mowing, general maintenance, cleaning, repair of a flag pole, and construction of a building to house both village equipment and a volunteer fire department substation. However, during the year ended December 31, 2006, bids were either not solicited or bid documentation was not retained in some instances. The village purchased sewer testing and repair services for \$4,840, sewer system parts for \$2,275, liability insurance for \$2,994, property insurance for \$910, and additional sewer testing and repair services for \$820 without soliciting bids.

Formal bidding procedures for purchases would provide a framework for economical management of village resources and help ensure the village receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the village's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. The village has not established adequate procedures to identify non-employee wages which require a Form 1099-Miscellaneous. For example, Form 1099-Miscellaneous was not prepared by the village for the construction of a handicap ramp during 2006 totaling \$600. Section 6041 and 6051 of the Internal Revenue Code require payments of at least \$600 or more in one year to an individual for professional services or for services performed as a trade or business by

nonemployees (other than corporations) be reported to the federal government on Form 1099.

- C. The village did not always enter into written contracts defining services to be provided and benefits to be received.
- The village has not entered into written agreements with sewer superintendents who conducted tests and made repairs to the village's sewer system, or with an individual that performed general maintenance work. In addition, invoices prepared by one of the sewer superintendents and the general maintenance contractor did not always adequately document work performed and/or hours or dates worked. For example, an invoice from the sewer superintendent for March 2006 indicated the dates of service but not hours worked on those days, and did not provide an adequate description of services performed. Further, an invoice for general maintenance was for 25 hours of labor, but only indicated one date of service.
 - The village did not enter into written agreements with a tenant for the rental of village property.

Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, also requires contracts for political subdivisions to be in writing. In addition, to ensure the validity and propriety of expenditures, adequate supporting documentation should be obtained for all payments to vendors and contracts should be sufficiently detailed to allow the board a basis for adequately monitoring the services received and determining whether the amount paid was reasonable compared to the services that were rendered.

- D. Vendor invoices or other supporting documentation were not retained for some village expenditures. During our review of specific expenditures, village officials could not locate vendor invoices for sewer system parts in December 2006 totaling \$2,275, and office supplies and a filing cabinet in March 2006 totaling \$164. All expenditures should be supported by paid receipts or vendor invoices to ensure the obligation was actually incurred and the expenditures represent appropriate uses of public funds.
- E. During our review of specific expenditures, we noted numerous invoices not marked paid or otherwise cancelled to prevent reuse. It appears that with the constant turnover in employees, such controls were not always in place. Canceling invoices and all other supporting documentation reduces the possibility of duplicate payments.
- F. During the time period from April through July 2007, invoices were not always paid and some monthly payments and deposits were not always made in a timely manner due to a change in village clerks. For example, the village did not pay its

attorney his monthly retainer in accordance with the village ordinance, did not consistently make the required monthly loan payments to the United States Department of Agriculture (USDA) related to the sewer system, and did not make the required monthly deposits into its Sewer Debt Service account as required by loan agreements. The village has subsequently made all of these payments.

Good business practices require timely payments of invoices and required loan payments, and timely deposits into the Sewer Debt Service account. Failure to make timely payments and deposits could result in unnecessary penalties and interest and non compliance with loan requirements.

- G. The village did not require the bank to pledge adequate collateral for its bank accounts. For example, on September 10, 2007 when tax monies for village development were received from Laclede County, approximately \$46,000 was unsecured. In addition, the village does not have a written agreement with its current depository bank.

Section 110.020, requires the value of securities pledged to be not less than 100 percent of the actual amount on deposit less the amount insured by the FDIC. Inadequate collateral securities leave public funds unsecured and subject to possible loss in the event of bank failure.

In addition, a written depository agreement helps both the bank and the village understand and comply with the requirements of any banking arrangement. The village should ensure any depository agreement includes provisions that detail any bank fees for check printing, checking account services, and safe deposit boxes, interest charges on any borrowed funds, and interest rates for invested funds. The agreements should also include requirements to ensure adequate collateral securities are pledged by the bank to secure all village monies.

WE RECOMMEND to the Board of Trustees:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected.
- B. Ensure 1099 forms are issued in accordance with IRS regulations.
- C. Enter into written agreements for applicable services and obtain adequate supporting documentation for all payments to vendors.
- D. Ensure adequate supporting documentation is retained for all expenditures.
- E. Ensure all invoices are properly cancelled, by marking the invoice 'Paid' to reduce the possibility of duplicate payments.
- F. Ensure invoices, required monthly payments, and deposits into the Sewer Debt Service account are made in a timely manner.

- G. Ensure all funds are covered by a collateral security agreement and that the depository bank pledges adequate securities at all times in accordance with state law. In addition, enter into a written agreement with the village's depository bank.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *We will adopt a formal bidding policy.*
- B. *We will ensure the future Village Clerk does this.*
- C. *We will consider entering into written agreements for these services.*
- D, E,
&F. *These have been implemented.*
- G. *We will consider this.*

4. Board Meetings and Records

Village procedures for conducting and documenting closed meetings are not always in compliance with state law, and meeting minutes did not always include sufficient detail of matters discussed.

- A. Improvement is needed in the handling of closed meetings. Numerous closed sessions were held by the board, but the various requirements in Chapter 610, RSMo (the Sunshine Law) regarding closed meetings were not always followed.
- The minutes of open meetings do not always document the reasons for closing the meeting or the specific section of law that allows for the closed meeting.
 - Some issues discussed in closed meetings did not appear to be allowable per the Sunshine Law. These topics included contracting with a sewer superintendent, approving sending a letter to a village citizen over a disagreement, and approving contacting an attorney for possible future legal services since the village had decided not to renew the contract with their current village attorney. Discussion of such questionable topics appears to have become more prevalent after the board's decision to not have legal counsel present for all meetings.
 - The open meeting minutes did not always publicly disclose the final disposition of applicable matters discussed in closed sessions.

- The minutes of a closed meeting held on August 21, 2007 were not legible.

The Sunshine Law, Chapter 610, RSMo, states the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open meeting and requires minutes be kept for all closed meetings. In addition, the Sunshine Law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote. Further, Section 610.021, RSMo, of the Sunshine Law requires certain matters discussed in closed meetings be made public upon final disposition. The minutes should provide sufficient details of discussions to demonstrate compliance with statutory provisions and support important decisions.

- B. Both open and closed meeting minutes did not always include sufficient detail of matters discussed. Information provided in some of the Board of Trustees meeting minutes was generally brief in comparison to the length of the meetings, which according to the minutes lasted up to three or four hours.

In addition, during the April 17, 2007 board meeting, two board members resigned; however, there was no documentation in meeting minutes that the board accepted the resignations. The village's policy manual states, "to resign from Village office two parts are essential: There must be an offer by the official. There must be an acceptance by a quorum."

Complete and accurate minutes provide an official record of Board of Trustee actions and decisions. The minutes are the only official record of the actions of the Board of Trustees. Care should be taken to ensure the minutes are complete and document discussions or reasons behind board decisions. Inadequate or unclear minutes can lead to subsequent confusion as to the board's intentions, possible incorrect interpretation of the board's actions by the general public or other outside entities, and the inability to demonstrate compliance with legal provisions. In addition, since the village's policy manual represents legislation passed by the Board of Trustees to govern the village and its residents, it is important that these policies are followed.

WE RECOMMEND the Board of Trustees:

- A. Ensure minutes adequately document the reasons for going into closed meetings and publicly disclose the final disposition of applicable matters discussed in closed meetings. In addition, minutes should be maintained in a legible manner to support all closed meetings and only allowable topics should be discussed in closed meetings.
- B. Ensure meeting minutes include the information necessary to provide a complete record of all significant matters discussed and actions taken.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *We will become more informed on the Sunshine Law and seek to fully comply in the future.*
- B. *We will take this into consideration in the future.*

5. Accounting Controls and Procedures
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Improvements are needed in the village's handling of receipts. Bank reconciliations have not been performed monthly by either the current or former village clerk or board treasurers for all of the village's seven bank accounts. Only one signature on checks issued under \$500 is required, and the board's review and approval of expenditures is not adequately documented.

- A. The following concerns were noted related to receipts:
 - Rediform receipt slips are only issued for cash received. To properly account for all receipts and ensure they are properly deposited, official prenumbered receipt slips should be issued for all monies received immediately upon receipt, and the method of payment should be recorded on each receipt slip and the composition of receipts should be reconciled to the composition of bank deposits.
 - Receipts are not always deposited intact or in a timely manner. The village indicated deposits are typically made twice a week, on Monday and Friday; however, eight receipts totaling \$268 of sewer fees (including \$25 cash) received on November 1 and 2, 2007 were held and not deposited until November 13, 2007. In addition, \$551 of Federal Emergency Management Assistance grant monies were received in August 2007, but were held and not deposited until January 19, 2008. To adequately safeguard receipts and reduce the risk of loss or misuse of funds, deposits should be made intact on a timely basis.
- B. Bank reconciliations have not been performed and documented monthly by either the current or former village clerks or board treasurers for all of the village's seven bank accounts. Monthly bank reconciliations are necessary to ensure the accounting records are in agreement with the bank records and to help detect errors on a timely basis.
- C. The village only requires one signature on all checks issued under \$500. Dual signatures on all checks help provide assurance that checks represent payments for legitimate village expenditures.

- D. The board's review and approval of non-routine expenditures is not adequately documented. Although the board minutes document a general reference that invoices are approved for payment, a listing of all expenditures is not prepared to accompany the minutes. According to the village clerk, a folder containing all of the bills to be paid is made available to the board at each meeting. Non-routine expenditures made from village funds should be reviewed and approved by the Board of Trustees before payment is made to ensure all expenditures represent valid operating costs of the village. In addition, to adequately document the board's review and approval of all expenditures, a complete and detailed listing of bills should be prepared, signed or initialed by the board to denote their approval, and retained with the official minutes.

WE RECOMMEND the Board of Trustees:

- A. Issue official prenumbered receipt slips for all monies received. Ensure the method of payment is recorded on each receipt slip, and the composition of receipts is reconciled to the composition of deposits. Deposit all monies intact and in a timely manner.
- B. Ensure bank reconciliations are prepared monthly for all village accounts.
- C. Ensure two signatures are required for all checks written by the village.
- D. Review and approve all non-routine expenditures of village funds prior to disbursements being made. The approval of expenditures should be adequately documented by including a listing of all approved expenditures in the board minutes and by performing a comparison of the listing to actual disbursements made.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *Prenumbered receipt slips are now issued for all monies received, and we will attempt to ensure timely deposits. We are now reconciling receipt slips, including composition, to deposits.*
- B. *This has been implemented.*
- C. *We will consider this.*
- D. *We have implemented procedures to address this.*

6.**Untimely Audits**

Annual audits have not been performed as required by state law, and a federal single audit was not performed timely. Section 250.150, RSMo, requires the village to obtain annual audits of the sewerage system. In addition, the village received over \$946,000 of federal sewer construction grant funds during the two years ended December 31, 2002 and as a result required a federal single audit. The village contracted with a Certified Public Accountant in May 2006 for a financial statement audit of the sewer system and a federal single audit for the two years ended December 31, 2002, which was not issued by the CPA until August 2007. The CPA indicated he has received no correspondence or confirmation from the Federal Audit Clearinghouse nor did our review of the website of the Federal Audit Clearinghouse indicate acceptance of this audit report. Timely audits of village funds would better enable the village to ascertain the financial condition of the village and to ensure the propriety and accuracy of financial transactions.

WE RECOMMEND the Board of Trustees obtain annual audits of the Sewer Fund, as required by state law. In addition, the village should obtain all required audits in a timely manner.

AUDITEE'S RESPONSE

The Board of Trustees provided the following response:

We will take this under advisement.

7.**Restricted Revenues**

The village has not established procedures to ensure that restricted revenues are expended only for their intended purpose and expenditures are properly allocated among funds.

- A. 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. The village deposits these revenues and unrestricted franchise fees (received from a local utility company) into a bank account and expends these funds for both street and park related purposes. The park related purposes included mowing the park and installing swings which do not appear to be an allowable use of the motor vehicle related revenues. The village has established a separate accounting for those revenues and for street and park expenditures; however, the village does not compare the street expenditures to the motor vehicle related revenues or maintain balances of motor vehicle related funds available to ensure these funds are only spent for street-related purposes. The village received

over \$8,400 of motor vehicle related revenues during the year ended December 31, 2006.

To ensure compliance with the Missouri Constitution, the village should establish procedures to compare street expenditures to the motor vehicle related revenues and maintain balances of motor vehicle related funds available.

- B. Documentation does not exist to support the allocation of some expenditures to the village's funds. Legal fees of the village's attorney and the salaries of the village clerks during the year ended December 31, 2006 totaling approximately \$3,609 and \$5,619, respectively, were paid from funds of the village based on prior percentages rather than detailed records of actual time spent. The village paid half of the legal fees and one-third of the clerks' salary from the General Fund and the remaining amounts were paid from the Sewer Operating Fund, however nothing in village records showed how these percentages were determined.

Detailed billings indicating the time spent and a description of work performed are provided by the village's attorney. In addition, time sheets are prepared by the village clerks, indicating the total hours worked; however, no documentation is maintained to separately indicate the number of hours related to general and sewer activities.

The funds of the village are established as separate accounting entities to account for specific activities of the village. Generally accepted accounting principles and various legal restrictions require revenues and expenses associated with specific activities be reflected in the fund established to account for those activities. Reflecting revenues and expenses in the proper fund is also necessary to accurately determine the results of operations of specific activities, thus, enabling the village to establish the level of taxation and/or user charges necessary to meet all operating costs. User rates should be set to cover costs of producing and delivering the service and not to generate profits to subsidize other services provided by village government. Therefore, documentation and proper allocation of expenses is useful for both management and compliance purposes.

WE RECOMMEND the Board of Trustees:

- A. Establish procedures to compare street expenditures to the motor vehicle related revenues and maintain balances of motor vehicle related funds available. In addition, ensure these revenues are used only for street-related purposes.
- B. Ensure all allocations of expenditures are supported by adequate documentation.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *This will be implemented as best we can.*
- B. *We will take this under consideration.*

8. Capital Assets

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

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

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

AUDITEE'S RESPONSE

The Board of Trustees provided the following response:

We will implement this.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

VILLAGE OF PHILLIPSBURG
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Village of Phillipsburg is located in Laclede County. The village was incorporated in 1912. The population of the village in 2000 was 201.

The village government consists of a five-member board of trustees. The members are elected for 2-year terms. The chairman is elected by the board and serves until a successor is elected by the board, and presides over the board of trustees. The Chairman, Board of Trustees, and other officials during the years ended December 31, 2007 and 2006, are identified below.

Board of Trustees	Dates of Service During the Years Ended December 31, 2007 and 2006	Compensation Paid for the Year Ended December 31,	
		2007	2006
Nancy Murrell, Board Member	September 2007-December 2007	\$ 0	N/A
Gary Poland, Board Member	April 2007-August 2007	0	N/A
Bonita Jones, Board Member and Chairman (1)	January 2006-April 2007	0	0
Leesa Padgett, Board Member and Chairman (2)	May 2007-December 2007	0	N/A
Ruby Oberbeck, Board Member (3)	January 2006-April 2007	2,474	1,751
Galen Millard, Board Member	June-December 2007	0	N/A
Craig Austin, Board Member	January 2006-June 2007	0	0
Paula Pierce, Board Member	November-December 2007	0	N/A
Jack Busbee, Board Member and Chairman (4)	May-October 2007	0	N/A
Patti Doing, Board Member	January 2006-April 2007	0	0
Eula Gibbs, Board Member	January-April 2006	N/A	0
Francis Massey, Board Member	September-December 2007	0	N/A
Karen Masters, Board Member (3)	April-September 2007	0	N/A
Connie Miller, Board Member	January 2006-April 2007	0	0
Other Officials	Dates of Service During the Year Ended December 31, 2007 and 2006	Compensation Paid for the Year Ended December 31,	
		2007	2006
Roxanne Millard, Village Clerk	May-December 2007	\$ 1,969	N/A
Eula Gibbs, Assistant Village Clerk	May-December 2007	1,203	N/A
Beth Stevens, Village Clerk	January-September 2006	N/A	3,868
Mel Gilbert, Village Attorney	January-December	4,387	3,609

- (1) Served as Chairman from January 2006 through April 2007.
- (2) Leesa Padgett was elected as Chairman by the board in October 2007 after Jack Busbee resigned.
- (3) Karen Masters was appointed as Village Clerk in April 2007 and resigned in May 2007. Ruby Oberbeck was appointed as Village Clerk in September 2006 to fill the position of Beth Stevens and resigned in April 2007. Compensation reported for Ruby Oberbeck was for serving as the Village Clerk.
- (4) Jack Busbee was elected as Chairman of the board in May 2007 and served until October 2007 when he resigned.

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

ASSESSED VALUATIONS	<u>2007</u>	<u>2006</u>
Real estate	\$ 834,323	794,339
Personal property	345,788	342,844
Total	<u>\$ 1,180,111</u>	<u>1,137,183</u>

TAX RATE(S) PER \$100 ASSESSED VALUATION

	<u>2007</u>	<u>2006</u>
	Rate	Rate
General Fund	\$ 0.4547	0.4587

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

	<u>Rate</u>
General	\$.0050

The General sales tax will expire in April 2008.

A summary of the village's financial activity for the years ended December 31, 2007 and 2006, is presented below:

Year Ended December 31, 2007

	Sewer							Total
	General Fund	Operating Fund	CART Fund	Sewer Debt Service Fund	Replacement and Extension Fund	Sewer Construction Fund	Sewer Deposit Fund	
RECEIPTS:								
Laclede County Development Tax\$	50,000	0	0	0	0	0	0	50,000
Property taxes	4,638	0	0	0	0	0	0	4,638
Sales taxes	4,398	0	0	0	0	0	0	4,398
Franchise taxes	2,257	0	2,208	0	0	0	0	4,465
FEMA	0	3,931	2,808	0	0	0	0	6,739
Rent	7,400	0	0	0	0	0	0	7,400
Sewer fees	0	30,362	0	0	0	0	0	30,362
Sewer deposits	0	0	0	0	0	0	1,200	1,200
Interest	579	84	144	140	140	0	81	1,168
Motor fuel and vehicle fees	0	0	9,243	0	0	0	0	9,243
Other	288	1,150	207	0	0	9,470	0	11,115
Transfers in	0	0	0	1,332	1,332	0	0	2,664
Total Receipts	<u>69,560</u>	<u>35,527</u>	<u>14,610</u>	<u>1,472</u>	<u>1,472</u>	<u>9,470</u>	<u>1,281</u>	<u>133,392</u>
DISBURSEMENTS:								
Bookkeeping	4,072	1,876	0	0	0	0	0	5,948
Audit	0	3,040	0	0	0	3,040	0	6,080
Insurance	5,075	0	0	0	0	0	0	5,075
Utilities	2,731	1,860	0	0	0	0	0	4,591
Supplies	589	876	0	0	0	0	0	1,465
Library	160	0	0	0	0	0	0	160
Legal services	3,981	540	0	0	0	0	0	4,521
Building construction	11,426	0	0	0	0	0	0	11,426
Loan payments	0	13,224	0	0	0	0	0	13,224
Maintenance	0	13,346	4,555	0	0	0	0	17,901
Ice storm	0	6,457	2,654	0	0	0	0	9,111
Refunds and shutoffs	0	309	0	0	0	0	1,000	1,309
Street and park lights	0	0	3,773	0	0	0	0	3,773
Sewer construction	0	0	0	0	0	9,103	0	9,103
Election	2,677	0	0	0	0	0	0	2,677
Other	2,360	681	361	0	0	0	0	3,402
Transfers out	0	2,664	0	0	0	0	0	2,664
Total Disbursements	<u>33,071</u>	<u>44,873</u>	<u>11,343</u>	<u>0</u>	<u>0</u>	<u>12,143</u>	<u>1,000</u>	<u>102,430</u>
Receipts Over (Under) Disbursements	<u>36,489</u>	<u>(9,346)</u>	<u>3,267</u>	<u>1,472</u>	<u>1,472</u>	<u>(2,673)</u>	<u>281</u>	<u>30,962</u>
Cash Balance, January 1	62,980	17,814	15,301	6,278	6,278	2,673	3,818	112,193
Cash Balance, December 31	<u>\$ 99,469</u>	<u>8,468</u>	<u>18,568</u>	<u>7,750</u>	<u>7,750</u>	<u>0</u>	<u>4,099</u>	<u>143,155</u>

Year Ended December 31, 2006

	Sewer							Total
	General Fund	Operating Fund	CART Fund	Sewer Debt Service Fund	Replacement and Extension Fund	Sewer Construction Fund	Sewer Deposit Fund	
RECEIPTS:								0
Property taxes	\$ 4,640	0	0	0	0	0	0	4,640
Sales taxes	4,582	0	0	0	0	0	0	4,582
Franchise taxes	3,647	0	0	0	0	0	0	3,647
Rent	8,451	0	0	0	0	0	0	8,451
Sewer fees	0	30,378	0	0	0	0	0	30,378
Sewer deposits	0	0	0	0	0	0	1,200	1,200
Interest	715	121	107	113	113	0	69	1,238
Motor fuel and vehicle fees	0	0	8,468	0	0	0	0	8,468
Other	144	2,345	0	0	0	4,900	0	7,389
Transfers in	0	0	0	1,332	1,332	0	0	2,664
Total Receipts	22,179	32,844	8,575	1,445	1,445	4,900	1,269	72,657
DISBURSEMENTS:								
Bookkeeping	2,192	5,160	0	0	0	0	0	7,352
Insurance	4,118	0	0	0	0	0	0	4,118
Utilities	2,250	1,373	0	0	0	0	0	3,623
Supplies	919	3,911	0	0	0	0	0	4,830
Library	120	0	0	0	0	0	0	120
Legal services	1,829	1,829	0	0	0	0	0	3,658
Building improvements	1,748	0	0	0	0	0	0	1,748
Park	455	0	0	0	0	0	0	455
Loan payments	0	13,224	0	0	0	0	0	13,224
Maintenance	0	5,469	3,916	0	0	0	0	9,385
Refunds and shutoffs	0	1,195	0	0	0	0	400	1,595
Street and park lights	0	0	4,413	0	0	0	0	4,413
Sewer construction	0	0	0	0	0	4,897	0	4,897
Other	1,109	200	1,013	0	0	0	0	2,322
Transfers out	0	2,664	0	0	0	0	0	2,664
Total Disbursements	14,740	35,025	9,342	0	0	4,897	400	64,404
Receipts Over (Under) Disbursements	7,439	(2,181)	(767)	1,445	1,445	3	869	8,253
Cash Balance, January 1	55,541	19,995	16,068	4,833	4,833	2,670	2,949	103,940
Cash Balance, December 31	\$ 62,980	\$ 17,814	\$ 15,301	\$ 6,278	\$ 6,278	\$ 2,673	\$ 3,818	\$ 112,193
