



Susan Montee, CPA
Missouri State Auditor

City of Centerview



July 2008

Report No. 2008-48

auditor.mo.gov



Office of
Missouri State Auditor
Susan Montee, CPA

July 2008

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

The Centerview City Clerk is responsible for all record keeping duties of the city, including duties that would be performed by a City Treasurer and signing checks. There was no evidence the board provided adequate supervision or review of the work performed by the City Clerk. In addition, a complete financial accounting system has not been established and receipts are not deposited on a timely basis.

The practice of allowing elected officials to carry delinquent water/sewer balances represents a potential violation of state law. Except for one alderman, Frank Todd, the current aldermen and former mayor had delinquent utility (water/sewer) bills at the time they filed for election. One alderman owed almost \$3,000 in utility charges, and another alderman owed over \$1,000. Monthly reconciliations of water/sewer billings, payments received, and amounts remaining unpaid are not performed and the gallons of water billed to customers are not reconciled to the gallons of water pumped or compared to the water purchased. Controls over water deposits need to be improved and the adjustment of sewer charges during the summer months does not appear to be approved by the board.

The city does not have formal written bidding and purchasing policies. As a result, the decision of whether to solicit bids and/or proposals for a particular good or service is made on an item-by-item basis. In 2007, the city paid \$1,400 for snow removal, \$1,000 for mowing, \$1,365 for meter reading, over \$14,000 for management of the city's water/wastewater system, and \$2,500 for attorney fees. According to city personnel, the city has not solicited bids/proposals for these goods/services for many years. Additionally, the city did not always have formal written agreements with companies or individuals providing services to the city. Also, the board does not review and approve invoices or other supporting documentation before payment is made and some expenditures do not appear to be prudent or a necessary use of public funds.

The city does not require police officers to prepare timesheets or otherwise account for their time. It appears the police officers set the time and dates they work and neither the board nor the city clerk is aware of when they are or are not working. Also, some elected officials were compensated for performing services for the city and their compensation was not reported to the Internal Revenue Service.

Also included in the audit report are recommendations related to restricted funds, financial reporting and budgets, public records, and capital assets.

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

YELLOW SHEET

CITY OF CENTERVIEW

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS	4-22
<u>Number</u>	<u>Description</u>
1.	Accounting Controls, Procedures, and Records5
2.	Personnel Policies, Procedures and Records8
3.	Restricted Funds11
4.	Budgeting, Financial Reporting, and Planning13
5.	Expenditures16
6.	Water and Sewer Services18
7.	Public Records21
8.	Capital Assets21
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	23-27

STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Centerview. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 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 city has adequate internal controls over significant management and financial functions.
3. Determine if the city 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 city, 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. We also tested certain of those controls to obtain evidence regarding the effectiveness of their design and 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 city's management and was not subjected to the procedures applied in our audit of the city.

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



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: Jennifer L. Carter

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

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

1. Accounting Controls, Procedures, and Records
--

The board needs to provide more supervision and review of the work performed by the City Clerk, establish a complete financial accounting system, ensure wage expense is properly allocated to the various funds, and better manage its bank accounts. In addition, receipts are not deposited on a timely basis, there is no bond coverage for the city clerk and city officials who sign checks, and the petty cash fund is not operated on an imprest basis.

- A. There is no adequate segregation of duties or independent oversight related to the city clerk's office. The City Clerk is responsible for all record keeping duties of the city, including duties which would normally be performed by a City Treasurer. These duties include billing water and sewer fees, monitoring delinquent water and sewer accounts, receiving and depositing monies, recording receipts and disbursements, preparing and distributing checks, preparing monthly financial reports and bank reconciliations, and maintaining payroll records. Additionally, the City Clerk can sign checks. There was no evidence the board provided adequate supervision or review of the work performed by the City Clerk. The current procedures jeopardize the system of independent checks and balances.

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 segregating duties to the extent possible. The City Clerk should not prepare and sign checks. In addition, Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city, the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these offices, by the same person at the same time would be incompatible. Holding two of these offices does not allow the separation of duties necessary for a proper evaluation and review of financial transactions.

If proper segregation of duties is not possible, timely supervision or an independent review of the work performed and investigation of any unusual items and variances is necessary.

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

The city does not maintain a fund ledger for its various funds showing the beginning balances, monthly revenues by source and expenditures by type, and

ending balances. The city's accounting records include checkbook registers for the general and water/sewer bank accounts, cash receipt listings showing deposits for each bank account, and a monthly "financial statement". The monthly "financial statement" is prepared from the cash receipt listings and checkbook registers and includes a detail list of the receipts and expenditures for the month. However, the financial information is not maintained on a timely basis because at the end of the month all the receipts and disbursements must be recorded again on the financial statement spreadsheet, and the city does not know the fund balance of its various funds until the monthly financial statement is prepared.

Fund ledgers and summary reports showing revenue sources and expenditure types should be prepared for each fund on a monthly basis and used for comparison to budgeted amounts and overall review of city operations. 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.

- C. The city does not maintain adequate documentation to support the allocation of the City Clerk's wage expense to city funds. The City Clerk's wages are allocated 50 percent to the General Fund, 25 percent to the Water Fund, and 25 percent to the Sewer Fund. Although the City Clerk prepares a time sheet, no detail of her activity is recorded.

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 activity; 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.

The City Clerk's wage expense should be allocated to the various city funds based on actual time or estimated time based on historical data.

- D. The city needs to better manage its bank accounts. The city currently has three accounts at one bank.
 - 1. The city has not solicited bids for its checking and depositary services nor entered into a written agreement with its depositary bank. Section 95.355, RSMo, provides for the selection of depositary banks and authorizes that the rights and duties of the parties be documented in a depositary contract.
 - 2. At December 31, 2007, the city's deposits exceeded Federal Deposit Insurance Corporation (FDIC) coverage by over \$11,000. Section 110.020, RSMo, requires city funds be secured by collateral securities in the amount of funds on deposit less FDIC coverage.

To ensure the quality of banking services and interest earnings received by the city are maximized, the city should procure its banking services through a competitive bid process. A written depositary contract helps both the city and bank understand and comply with the requirements of any banking arrangements. The contract, among other things, may specify the bank fees for check printing, checking account services, safe deposit boxes, interest charges for borrowing funds, interest rates for invested funds, and a requirement for the bank to pledge collateral security for any deposits in excess of FDIC coverage.

- E. Receipts are not deposited on a timely basis. Monies are generally deposited once per week. During the year ended December 31, 2007, deposits for the water/sewer bank account averaged almost \$1,500, with approximately 25 percent of the deposits received as cash. Receipts for the general bank account averaged approximately \$850, with a nominal amount received as cash.

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

- F. The city does not have bond coverage for its city clerk and officials. The City Clerk collects monies and signs checks and other authorized check signers are the Mayor and one alderman. The failure to bond all persons with access to assets exposed the city to an unnecessary risk of loss.
- G. The petty cash fund is not operated on an imprest basis and is also used as a change fund. Additionally, a log of petty cash transactions is not maintained. Also, there are no records indicating the proper balance of the fund or when the fund was established. The fund is not reviewed by a person independent of the accounting process. A cash count on January 29, 2008 revealed a petty cash balance of \$103.

The petty cash fund should be operated on 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. 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. If a change fund is need, it should be established and maintained at a constant amount.

WE RECOMMEND the Board of Aldermen:

- A. Consider appointing separate individuals to the positions of City Clerk and City Treasurer and/or segregate the duties of the city clerk's office to the extent possible. If proper segregation of duties cannot be achieved, timely supervision or independent review of the work performed and investigation into unusual items and variances is necessary.

- B. Ensure a complete financial accounting system is established. Funds should be established for the city's general account and other activities, as appropriate. Summaries should be prepared documenting monthly revenue sources and expenditure types. This information should be used to compare to budget estimates and monitor city operations.
- C. Ensure employee wages are properly allocated to the various funds and are supported by adequate documentation.
- D.1. Seek competitive bids for the city's banking services on a periodic basis, and enter into a written agreement with the depository bank.
 - 2. Ensure city funds are secured by adequate collateral securities.
- E. Ensure receipts are deposited daily or when accumulated receipts exceed \$100.
- F. Obtain adequate bond coverage for all persons handling city monies.
- 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. If a change fund is needed, it should be established and maintained at a constant amount.

AUDITEE'S RESPONSE

A. *We agree with this recommendation and are looking into the best way to implement this supervisory review.*

B, E, & G. *We agree with these recommendations and have started implementing them.*

C, D, & F. *We agree with these recommendations and plan to implement them.*

2.	Personnel Policies, Procedures, and Records
-----------	--

Elected officials did not always meet the statutory qualifications for holding office when elected. Some elected officials were compensated for performing services for the city and their compensation was not reported to the Internal Revenue Service (IRS). Additionally, employee compensations are not set by ordinance and police officers are not required to account for their time.

- A. Most elected officials did not meet the statutory qualifications for holding city office when filing for election. According to city records, city officials filed for office when they had unpaid water/sewer fees.

All current aldermen and the former mayor, except for alderman Frank Todd, had delinquent utility (water/sewer) bills at the time they filed for election. One alderman owed almost \$3,000 in utility charges, and another alderman owed over \$1,000.

Section, 115.346, RSMo provides that "no person shall be certified as a candidate for a municipal office...who shall be in arrears for...any unpaid municipal user fees on the last day to file a declaration of candidacy for the office."

The board needs to ensure candidates for city office possess the statutory qualifications for holding office. The board should also consider seeking legal advice from the city attorney regarding the situation.

- B. Some elected officials were compensated for performing services for the city and their compensation was not reported to the IRS.

1. In 2007, the city paid the former mayor (while in office) \$1,365 for reading water meters and turning the meters on/off and a current alderman \$2,440 for snow removal and mowing. Board approval of these arrangements could not be located in the board minutes. Also, there was no documentation the board solicited any bids/proposals for these services.

Section 105.458, RSMo, provides that a member of a governing body is prohibited from performing any service for that political subdivision for any consideration other than the compensation provided for the performance for his/her official duties.

The city should refrain from providing additional compensation to elected official and/or other city officials for services beyond the performance of their official duties.

2. The city did not report the compensation paid to the former mayor and alderman, and had nothing to support why these payments would not be considered taxable compensation.

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.

The city needs to contact the IRS for guidance regarding the reporting of the compensation paid to the former mayor and alderman and the withholding and payment of applicable payroll and social security taxes and should amended W-2s, as needed.

- C. The city has not established an ordinance for employee compensation. Although, the city sets employee compensation by board vote and/or resolution, Section 79.270, RSMo, provides that city employees salaries be set by ordinance.

Establishing ordinances to set compensation rates, in addition to meeting statutory requirements, document the approved amounts to be paid and eliminates misunderstandings regarding the amount of pay each city employee receives.

- D. Although the city has established the number of hours (30 hours per month, per officer) for its police officers to work, the city does not require documentation to support the hours worked. The two police officers are employed part-time by the city because they are employed full-time as sheriff deputies with the Johnson County Sheriff's Department.

The city does not require the police officers to prepare timesheets or otherwise account for their time. It appears the police officers set the time and dates they work and neither the board nor the city clerk is aware of when they are or are not working.

The board needs to ensure adequate supporting documentation, such as a timesheet, is provided to support the payroll expenses paid and to monitor the hours worked. Lack of adequate documentation prevents the board from evaluating the appropriateness of the compensation.

WE RECOMMEND the Board of Aldermen:

- A. Ensure candidates for city office possess the statutory qualifications for holding office. The board should also consider seeking legal advice from the city attorney regarding the situation.
- B.1. Refrain from providing compensation to city officials for services performed beyond their official duties.
 - 2. Contact the IRS for guidance regarding the reporting of the compensation paid to the former mayor and alderman and the withholding and payment of applicable payroll and social security taxes. Amended W-2s should be prepared, as needed.
- C. Establish the compensation of city employees by ordinance.
- D. Require the police officers to document their hours worked.

AUDITEE'S RESPONSE

A. *We will contact the city attorney and ensure all candidates from this point going forward are eligible.*

B.1. *We will have our city attorney look into this situation.*

B.2-D. *We agree with these recommendations and plan to implement them.*

3.

Restricted Funds

The city is not in compliance with some bond covenants. In addition, a separate fund and/or accounting has not been established for domestic violence fees, and law enforcement training (LET) fees were not used for training.

A. The city is not in compliance with its Neighborhood Improvement District (NID) bond covenant restrictions. Additionally, the city did not include all costs associated with the bonds when determining the special assessment amount.

In July 2006, the city established the Show Me Industrial Park NID. The city issued general obligation bonds, totaling \$75,000, to fund the installation of water and sewer lines in the city's industrial park and is ultimately responsible for the repayment of the bonds. The primary source of revenue for the bond repayment is the collection of a special assessment on the property within the NID. The sole property owner within the NID chose to pay the special assessment and related interest costs over a 20-year period. The yearly assessment is \$6,127.

The bond covenant requires the city to establish 1) a Project Fund to pay the project costs, 2) a Bond Fund to handle the payment of the bond principal and interest payments, and 3) a Bond Reserve Fund to be maintained while the bonds are outstanding.

Our review of the NID revealed the following problems:

- The bond proceeds were deposited into the water/sewer bank account. Also, the special assessment taxes are deposited in and the bond principal and interest payments are made from this bank account. Thus, the NID monies are co-mingled with city monies.
- The city does not obtain an annual audit of the city funds.

Additionally, the city did not include the administrative and other expenses of the bank which handles the bond payments in the special assessment calculation. The calculation just included the total principal and interest due over the 20-year period. In 2007, the administrative and other expenses totaled \$319. If the city

pays this amount over 20 years, the city will pay over \$6,000 which will not be covered by the special assessment and will need to be paid from city funds.

The bond covenant provides that 1) "All moneys held in the funds ... shall be kept separate and apart from all other funds of the City" to prevent commingling of the NID and city monies and 2) there should be an annual audit of the city's funds and accounts. 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, Sections 67.453 and 67.455, RSMo, provide that all costs incurred in connection with a project can be reimbursed through the special assessment.

The city should establish a separate bank account for the NID monies, and secure an annual audit as required by the bond covenant. An annual audit of the city funds would also help ensure city financial transactions have been properly recorded. Also, the city should adjust the special assessment amount to include all costs associated with the project.

- B. The city has not established a separate fund and/or accounting for the domestic violence fees. These fees are recorded in the Law Enforcement Fund. Section 488.607, RSMo, provides that domestic violence fees be disbursed to provide "operating expenses for shelters for battered persons". City personnel indicated the city has not provided any funding to such a shelter. In 2007, the city received domestic violence fees, totaling \$56. However, the city has not determined a balance for these fees.

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

- C. The LET fees may have been used for improper purposes. The city maintains a separate accounting for these fees. However, these law enforcement monies are recorded in the Law Enforcement Fund which includes other law enforcement related revenues. At December 31, 2007, the Law Enforcement Fund balance was \$282; however, the city's separate accounting for the LET fees showed a \$2,310 balance, with revenues totaling \$556 in 2007.

It appears over \$2,000 may have been used for other than training purposes. Section 488.5335, RSMo, provides that LET fees should only be used to pay for the training of law enforcement personnel. According to city records, no LET fees were used for training during the year ended December 31, 2007.

The city needs to ensure LET fees are used in accordance with state law.

WE RECOMMEND the Board of Aldermen:

- A. Ensure compliance with all terms of the bond covenant. Additionally, the city should adjust the special assessment amount to include all costs associated with the project.
- B. Establish a separate fund and/or accounting for the domestic violence fees and ensure these fees are used in accordance with state law.
- C. Ensure LET fees are used in accordance with state law.

AUDITEE'S RESPONSE

A-C. *We agree with these recommendations and plan to implement them.*

4. Budgeting, Financial Reporting, and Planning
--

Significant weaknesses were identified in the city's budgeting, financial reporting, and planning. Budgets do not include sufficient information, actual disbursements exceeded the budgeted amounts in some funds, and budget to actual information is not adequate. Also, the annual tax levy is not set by ordinance, financial reports are not filed with the State Auditor's Office, and an annual maintenance plan for city streets is not prepared.

- A. The city does not prepare and adopt annual budgets in accordance with statutory provisions. The budgets do not include a budget message and general budget summary, actual revenues and disbursements for the two preceding budget years, beginning available resources and estimated ending available resources, or information regarding the city's debt. The annual budgets only include the budgeted receipts and disbursements for the General, Street, Law Enforcement, Water, and Sewer Funds. In 2007, budgets were not prepared for the NID and Community Development Block Grant. In addition, the budgets for 2008 and 2007 were not adopted until after the beginning of the fiscal year.

Section 67.010, RSMo, requires the preparation of an annual budget which shall 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. In addition, Section 67.030, RSMo, requires the budget be approved prior to the beginning of the fiscal 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 the district's operations, and a means to effectively monitor actual costs by periodically comparing budgeted to actual disbursements. It will also assist in setting tax levies and informing the public about city operations and current finances.

- B. For the year ended December 31, 2007, the city's actual expenditures exceeded budgeted amounts for the General, Law Enforcement, Water, and Sewer Funds as follows:

	<u>Budgeted</u> <u>Expenditures</u>	<u>Actual</u> <u>Expenditures</u>	<u>(Over)</u> <u>Budget</u>
General	\$ 20,325	21,426	(1,101)
Law Enforcement	12,710	15,460	(2,750)
Water	58,535	60,994	(2,459)
Sewer	16,875	18,250	(1,375)

The city did not prepare amended budgets for these funds nor did the city set forth any reasons for exceeding the budgeted amounts in the board minutes or adopt a resolution authorizing the additional expenditures. As noted below, the city has no adequate mechanism to monitor budgeted and actual expenditures.

The budget process provides a means to allocate financial resources in advance and to monitor revenues and expenditures throughout the year. Failure to adhere to expenditures limits imposed by the budgets weakens the effectiveness of the process. Section 67.040, RSMo, requires political subdivisions to keep expenditures within amounts budgeted and allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no expenditure of public monies should be made unless it is authorized in the budget. The city should formally amend the budget before the related expenditures are incurred.

- C. The monthly budget to actual expenditure reports presented to the board are not adequate. The reports do not show a comparison of the cumulative revenues by source and expenditures by type to the budgeted amounts. The reports only show the total budgeted revenues and expenditures for the year and the total actual revenues and expenditures for the month.

To help ensure the city's budget and financial condition is adequately monitored, detailed budget to actual reports need to be prepared and reviewed by the board. A complete and detailed budget to actual report would also help ensure budgets are not overspent and funds are available for expenditures.

- D. The city does not set the property tax rate by ordinance. A resolution is approved to establish the annual tax rate. Sections 94.190.3 and 94.210, RSMo, require the property tax rate be set by ordinance.

- E. The city has not prepared and submitted annual financial reports to the State Auditor's Office since 1997. Section 105.145, RSMo, requires the city to file an annual report of its financial transactions with the State Auditor's Office. An unaudited financial report is due within four months after the end of the city's fiscal year, while audited financial statements are due within six months after the end of the city's fiscal year.

The board should ensure annual financial reports submitted to the State Auditor's Office accurately and completely reflect the financial activity and balances of the various city funds.

- F. Although street maintenance materials purchased totaled less than \$2,500 for the year ended December, 31, 2007, the city should consider preparing an annual maintenance plan for city streets. 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 and can serve as a useful management tool and provide greater input into the overall budgeting process.

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.

WE RECOMMEND the Board of Aldermen:

- A. Prepare annual budgets which contain all information required by state law. The budgets should be approved prior to the beginning of the city's fiscal year.
- B. Refrain from authorizing disbursements in excess of budgeted amounts. If valid reasons necessitate excess disbursements, the original budget should be formally amended.
- C. Ensure complete and detailed monthly budget to actual reports are prepared and reviewed by the board.
- D. Set the annual property tax rate by ordinance, as required by state law.
- E. Prepare and submit annual financial reports to the State Auditor's Office as required by state law.
- F. Prepare an annual street maintenance plan as part of the budget.

AUDITEE'S RESPONSE

A-E. We agree with these recommendations and plan to implement them.

F. We will evaluate this recommendation.

5. Expenditures

The city needs to develop formal bidding and purchasing policies and require written agreements with companies or individuals providing services to the city. Also, the board did not review and approve invoices or other documentation before payment was made. In addition, some expenditures did not appear to be prudent, reasonable, or a necessary use of public funds.

A. The city does not have formal written bidding and purchasing policies. As a result, the decision of whether to solicit bids and/or proposals for a particular good or service is made on an item-by-item basis. Also, recent bids/proposals have not been solicited for various goods and/or services.

For example, in 2007, the city paid over \$600 for saturock (used to fill potholes), \$1,400 for snow removal, \$1,000 for mowing, \$1,365 for meter reading, and over \$14,000 for management of the city's water/wastewater system and \$2,500 for attorney fees. According to city personnel, the city has not solicited bids/proposals for these goods/services for many years.

Formal bidding and purchasing would provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with bidders that offer the best value. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the city's business. Not only can bids be handled by telephone quotation but bids can also be obtained by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate based on the 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 city did not always have formal written agreements with companies or individuals providing services to the city.

For example, the city does not have a written agreement with the Johnson County Sheriff regarding the boarding of prisoners for the city or for the attorney fees, mowing, snow removal, and meter reading mentioned above. In addition, there are no written employment agreements with the two county deputies who act as city police officers.

Also, although city personnel indicated there were written agreements for its bond counsel and paying agent for the NID bonds, and grant administrator, the city could not locate these agreements.

The city should obtain formal written agreements, as needed, which specify the services to be rendered and the manner and amount of compensation to be paid. Furthermore, Section 432.070, RSMo, requires contracts of political subdivisions be in writing. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties. Additionally, the city should retain its written agreements.

- C. The board does not review and approve invoices or other supporting documentation before payment is made. Although the board minutes document a general reference that disbursements are approved for payment and a listing of the disbursements is prepared to accompany the minutes, invoices/supporting documentation are not provided to the board for their review. According to city personnel, the invoices/supporting documentation is available upon request.

Supporting documentation should be reviewed by the board or someone independent of the disbursement process before payment is made to ensure all disbursements represent valid operating costs of the city. Also, to adequately document the board's review and approval of all disbursements, the listing of disbursement should be signed or initialed by the board to denote its approval, and retained with the official minutes.

- D. Some expenditures did not appear to be prudent, reasonable, or a necessary use of public funds. These include:

- The purchase of holiday gifts (food), totaling \$60, for city employees.
- The purchase of 2008 pocket calendars, totaling \$334, given as holiday gifts to city residents.

These expenditures do not appear to be a necessary cost of operating the city and constitutes a questionable use of public funds. The city's residents have placed a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. The board should evaluate the propriety of spending public funds on these types of expenditures.

WE RECOMMEND the Board of Aldermen:

- A. Establish formal bidding and purchasing policies, with provisions for documentation of the justification for selecting and rejecting bids/proposals.

- B. Obtain and retain formal written agreements for services which specify the services to be rendered and the manner and amount of compensation to be paid, as applicable.
- C. Review and approve the disbursement of city funds prior to the disbursements being made. Also, the listing of disbursements should be signed or initialed by the board to denote its approval, and retained with the official minutes.
- D. Ensure all expenditures from city monies are necessary and a prudent use of public funds.

AUDITEE'S RESPONSE

- A-B. *We agree with these recommendations and plan to implement them.*
- C. *We agree and have started implementing this.*
- D. *We will evaluate this situation.*

6.	Water and Sewer Services
-----------	---------------------------------

The practice of allowing elected officials to carry delinquent water/sewer balances represents a potential violation of state law. Monthly reconciliations of water/sewer billings, payments received, and amounts remaining unpaid are not performed and the gallons of water billed to customers are not reconciled to the gallons of water pumped or compared to the water purchased. Controls over water deposits need to be improved and the adjustment of sewer charges during the summer months does not appear to be approved by the board.

- A. Most elected officials maintained delinquent water/sewer balances. During 2007, two aldermen had significant delinquent balances. One had an average month-end balance of over \$3,000 and the other balance was over \$1,000. In addition, the former mayor and another alderman had average month-end delinquent balances of approximately \$650 and \$300, respectively.

According to the former mayor, the elected officials and the city clerk were not charged late fees and water service was not shut-off for delinquent balances because the elected officials were not paid compensation and they did many things for the city.

The city code provides a late fee of \$5 (\$2 prior to August 2007) be charged if payment is received after the 10th of the month and any bill not paid by the 20th of the month would result in service being disconnected on the next meter reading date.

Officers of a city serve in a fiduciary capacity and should not use their position for personal gain. Additionally, this situation represents a potential violation of state law. The Missouri Constitution prohibits a political subdivision "to lend its credit or grant public money or property to any private individual, ... except as provided in the constitution.

The city should stop its practice of allowing elected officials to carry delinquent water/sewer balances. Additionally, the city should make arrangements for these delinquent balances to be paid in a timely manner.

- B. The city does not perform monthly reconciliations of total billings, payments received, and amounts remaining unpaid for the water and sewer services. Although delinquent amounts are recorded on the individual utility cards, a summary of delinquent amounts is not prepared. At our request, the city prepared a list of delinquent accounts at December 31, 2007. The delinquent balance was over \$9,400.

Monthly accounts receivable listings should be reconciled to the beginning accounts receivable, plus billings, less collections and other adjustments. Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any error or discrepancies are detected on a timely basis. Complete documentation of the reconciliation should be retained to support conclusions and any corrections made and to facilitate independent review.

- C. The city does not compare or reconcile gallons of water billed to customers to the gallons of water pumped. The city purchases its water from a public water supply district. During 2007, the city purchased an average of 565,500 gallons of water per month. 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 the 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. Additionally, the cash balance of the Water Fund at December 31, 2007 was not sufficient to cover the water deposits liability. It appears water deposits have been used for other purposes.

Adequate records of water deposits are not maintained, and the deposits recorded on the utility cards are not reconciled to the liability account. City residents are required to pay a refundable deposit for water service. Currently, the city collects \$100 from residents. The water deposits represent a liability to the city.

Although the water deposits are recorded on individual utility cards when paid, a summary total from the cards is not maintained. At our request, the city prepared a deposit list as of December 31, 2007 from the utility cards which totaled \$6,260. The liability account balance, totaling \$9,477, exceeds this amount by over \$3,200. In addition, the cash balance of the Water Fund at December 31, 2007 was less than \$4,000. Thus, it appears the city has used water deposits for other purposes.

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 liability account to ensure records are in balance and water deposits are properly accounted for. Without these reconciliations the possibility of undetected errors increases. Also, the city needs to ensure sufficient funds are reserved for its water deposit liability.

- E. There is no authorization for the adjustment of sewer charges during the summer months. Each year, from June to August (option to extend to September), sewer charges are adjusted to the lesser of the actual charge or the resident's average winter usage (January to March). For four accounts reviewed, the adjustment resulted in a write-off of over \$30 in sewer charges from June to September, 2007.

However, this adjustment is not authorized in the city's water/sewer ordinances, recorded as approved by the board in the board minutes, or otherwise justified.

Since sewer charges are user charges which should cover the cost of providing the related services including any related debt retirement, and depreciation and replacement costs, any adjustment to sewer charges should be properly approved by the board.

WE RECOMMEND the Board of Aldermen:

- A. Stop the practice of allowing elected officials to carry delinquent water/sewer balances. Additionally, the city should make arrangements for the current and prior officials to pay their delinquent balances in a timely manner.
- B. Require a control ledger be maintained and a monthly reconciliation performed of the amounts billed to amounts collected and delinquent accounts.
- C. Compare the gallons of water pumped to gallons billed on a monthly basis, reconcile to the gallons of water purchased, and investigate significant differences.

- D. Ensure adequate records of water deposits are maintained, including deposits received, disbursed, and the balance. The deposit record should be reconciled to the liability account balance on a periodic basis. In addition, the city should ensure sufficient funds are reserved for its water deposits liability.
- E. Ensure any adjustments to the city's sewer rates/charges are properly authorized.

AUDITEE'S RESPONSE

- A. *We have made payment arrangements for officials and have planned a meeting to decide how to handle delinquent accounts.*
- B-D. *We agree with these recommendations and plan to implement them.*
- E. *We agree with the recommendation and will pass an ordinance regarding the summer sewer adjustment.*

7.	Public Records
-----------	-----------------------

The city does not have a formal policy regarding public access to city records. A formal policy would establish guidelines for the city to make the records available to the public. The policy should identify a person to contact, provide an address to mail such requests, and establish a cost for providing copies of public records.

Section 610.023, RSMo, lists requirements for making city records available to the public. Section 610.026, RSMo, allows the city to charge fees for copying public records, including document research and duplication.

WE RECOMMEND the Board of Aldermen develop written policies regarding procedures to obtain access to, or copies of, public city records.

AUDITEE'S RESPONSE

We agree with this recommendation and plan to implement it.

8.	Capital Assets
-----------	-----------------------

The city needs to improve its controls over capital assets. The city does not maintain adequate, detailed records of its capital assets. In addition, the city allows elected officials and residents to use the city's backhoe for personal use.

- A. The city does not maintain complete and detailed records for its capital assets, including land, buildings, equipment, and furniture. In addition, property is not

tagged for specific identification and an annual physical inventory of the property is not performed. The city only maintains a folder that contains the original invoices when capital assets are purchased; however, this information was incomplete.

Property records for capital asset records are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage. To develop appropriate records and procedures for capital assets, the city needs to undertake a comprehensive review of all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. In addition, the city needs to maintain the property records on a perpetual basis, accounting for property acquisitions and dispositions as they occur. Periodically, the city should conduct physical inventories and compare to the detailed records. A physical inventory would also help identify outdated, obsolete, or idle equipment.

- B. The city allows elected officials, employees, and residents to use the city's backhoe for personal use. In February 2004, the city approved a resolution to charge \$50 per hour or a maximum of \$300 per day for the use of the city's backhoe. However, according to the former mayor, elected officials are not charged to use the backhoe. In addition, only an alderman or city employee was authorized to operate the backhoe.

Although the backhoe log shows limited personal use of the backhoe (twice by aldermen and once by a resident) since December 2006, it does not appear appropriate for elected officials and residents to use city property for personal use. The city should not allow the use of the city's backhoe for personal use.

WE RECOMMEND the Board of Aldermen:

- A. Maintain property records for capital assets that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. These records should be updated for property additions or dispositions as they occur. Additionally, annual physical inventories should be performed and compared to the detailed records.
- B. Ensure city property is used only for city business.

AUDITEE'S RESPONSE

A-B. We agree with these recommendations and plan to implement them.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF CENTERVIEW
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Centerview is located in Johnson County. The city was incorporated in 1960 and is currently a fourth-class city. The population of the city in 2000 was 249.

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 2-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, 2007, are identified below. The mayor and board of aldermen do not receive compensation for board meetings. However, some elected officials received compensation for other services provided the city.

Mayor and Board of Aldermen	Dates of Service During the Year Ended December 31, 2007	Compensation Paid for the Year Ended December 31, 2007
Doris Chamberlain, Mayor (1)	January to December	\$ 1,365
James Foote, Alderman (2)	January to December	0
Jeff Jones, Alderman	January to December	2,440
Frank Todd, Alderman (3)	January to December	0
Ron Todd, Alderman	January to December	0
Other Officials	Dates of Service During the Year Ended December 31, 2007	Compensation Paid for the Year Ended December 31, 2007
Evelyn Woodward, City Clerk (4)	January to December	\$ 6,870
Steven Edwards, City Marshal	January to December	5,760
Andrew Gobber, Assistant City Marshal	January to December	5,760
Caley Stecker, Animal Control Officer	January to December	353
Douglas Harris, City/Prosecuting Attorney (5)	January to December	2,776

(1) Frank Todd was elected Mayor in April 2008.

(2) Caley Stecker was elected Alderman in April 2008.

(3) William Fletcher was appointed to replace Alderman Todd in May 2008.

(4) Evelyn Woodward resigned in February 2008. Kris Swope was appointed to replace her in March 2008.

(5) Douglas Harris is paid a monthly retainer of \$170 per month as city attorney and \$105 per hour for prosecuting attorney services.

Assessed valuations and tax rates for 2007 were as follows:

ASSESSED VALUATIONS

Real estate	\$ 1,025,518
Personal property	204,371
Railroad and utility	<u>108,357</u>
Total	<u>\$ 1,338,246</u>

TAX RATE(S) PER \$100 ASSESSED VALUATION

	<u>Rate</u>
General Fund	\$ 0.8336

The city receives a portion (based on population) of a county-wide sales tax. The sales tax is to be used for law enforcement purposes. The tax is \$.005 per \$1 of retail sales.

In 2007, the city made principal and interest payments of \$6,129 on its general obligation Neighborhood Improvement District bonds. The current principal balance as of December 31, 2007 is \$73,000. The final principal and interest payment is due in March 2026.

A summary of the city's financial activity for the year ended December 31, 2007, is presented below:

	General Fund	Street Fund	Law Enforcement Fund	Water Fund	Sewer Fund	Restricted Fund	Neighborhood Improvement District Fund	Community Development Block Grant Fund
RECEIPTS								
Real estate and personal property taxes	\$ 9,897	0	0	0	0	0	0	0
Railroad and utility taxes	1,192	0	0	0	0	0	0	0
Tax assessments	0	0	0	0	0	0	6,127	0
County law enforcement sales taxes	0	0	10,962	0	0	0	0	0
Motor fuel and motor vehicle taxes	0	10,512	0	0	0	0	0	0
Franchise fees	13,078	0	0	0	0	0	0	0
Licenses and permits	85	0	0	990	0	0	0	0
Dog tags and kennel permits	316	0	0	0	0	0	0	0
Fines and penalties	0	0	0	2,048	0	0	0	0
Interest income	67	0	0	117	117	0	0	0
Municipal court fines	146	0	1,078	0	0	0	0	0
Law enforcement training fees	0	0	556	0	0	0	0	0
Domestic violence fees	0	0	56	0	0	0	0	0
Sales	0	0	0	45,766	22,421	0	0	0
Sales tax collected	0	0	0	695	0	0	0	0
Operating fees	0	0	0	3	92	0	0	0
Water deposits	0	0	0	2,429 *	0	0	0	0
Grant proceeds	0	0	0	0	0	0	0	194,350
Miscellaneous	380	0	0	100	50	0	0	0
Total Receipts	25,161	10,512	12,652	52,148	22,680	0	6,127	194,350
DISBURSEMENTS								
Water purchases	0	0	0	40,467	0	0	0	0
Salaries	3,018	0	10,639	2,212	2,212	0	0	0
Employment taxes	1,009	0	1,768	322	322	0	0	0
Workers' compensation insurance	166	166	166	166	166	0	0	0
Mileage reimbursements	398	15	0	149	149	0	0	0
Administration and legal	2,776	0	0	0	0	0	0	0
Animal control expenses	772	0	0	0	0	0	0	0
Utilities and street lights	2,082	3,121	0	613	197	0	0	0
Office expenses	1,498	0	0	297	265	0	0	0
Insurance	1,453	905	2,183	741	163	0	0	0
Sales tax	0	0	0	483	0	0	0	0
Memberships and dues	275	0	0	0	0	0	0	0
Election expenses	397	0	0	0	0	0	0	0

	General Fund	Street Fund	Law Enforcement Fund	Water Fund	Sewer Fund	Restricted Fund	Neighborhood Improvement District Fund	Community Development Block Grant Fund
Materials-streets	0	2,330	0	0	0	0	0	0
Maintenance and repairs	7	0	0	12,294	10,556	0	0	0
Property and equipment upkeep	0	1,113	90	0	0	0	0	0
Diesel	0	285	0	0	0	0	0	0
Mowing and snow removal	1,000	1,440	0	0	0	0	0	0
Supplies and equipment	14	437	64	777	523	0	0	0
Operating fees	0	0	0	396	88	0	0	0
Citywide cleanup	1,600	0	0	0	0	0	0	0
Halloween party	155	0	0	0	0	0	0	0
Dispatch fees	1,091	0	0	0	0	0	0	0
Police vehicle maintenance and repairs	0	0	162	0	0	0	0	0
Gasoline	0	0	252	0	0	0	0	0
Water deposits refunded	0	0	0	2,048 *	0	0	0	0
Boarding of prisoners	0	0	135	0	0	0	0	0
Bond payment	0	0	0	0	0	0	6,129	0
Bond administrative expenses	0	0	0	0	0	0	319	0
Grant administrative expenses	0	0	0	0	0	0	0	4,350
Engineering services	0	0	0	0	0	0	0	5,000
Construction costs	0	0	0	0	0	0	0	185,000
Miscellaneous	1,212	19	0	29	9	0	0	0
Total Disbursements	18,923	9,831	15,459	60,994	14,650	0	6,448	194,350
RECEIPTS OVER (UNDER)								
DISBURSEMENTS	6,238	681	(2,807)	(8,846)	8,030	0	(321)	0
OPERATING TRANSFER IN (OUT)	(2,500)	0	2,500	0	(3,600)	3,600	0	0
RECEIPTS OVER (UNDER)								
DISBURSEMENTS AND TRANSFERS	3,738	681	(307)	(8,846)	4,430	3,600	(321)	0
CASH BALANCE, JANUARY 1, 2007	10,512	14,269	589	12,807	53,035	9,711	6,623	176
CASH BALANCE, DECEMBER 31, 2007	\$ 14,250	14,950	282	3,961	57,465	13,311	6,302	176

* The water deposits and refunds are tracked in a liability account. According to city records, the liability account balance as of December 31, 2007 was \$9,477.