



Susan Montee, CPA
Missouri State Auditor

City of Wellington



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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 City of Wellington, Missouri.

There are numerous weaknesses in the city of Wellington's accounting controls, records, and procedures. An independent review of the City Clerk's activities is not performed, separate funds are not maintained for the utility operations, adequate documentation is not maintained for some expenses, and a fund and/or accounting for law enforcement training (LET) fees has not been established. In addition, the city should consider consolidating its bank accounts and certificates of deposit and bid its bank services.

During the year ended June 30, 2007, the City Collector collected property taxes and utility payments totaling over \$27,000 and \$216,000, respectively. There is no independent review of the collector's activities; an account book is not maintained; the board does not approve all additions/deletions to the tax records; the method of payment is not always recorded on the city's copy of tax statements; and reports regarding tax collections and delinquent tax lists are not prepared.

Budgets are not prepared and semi-annual financial statements are not published as required by state law. The official budgets are not always updated to reflect budget amendments or retained, and monthly budget to actual reports are not retained. Also, the city does not prepare an annual maintenance plan for city streets.

Although monthly reports comparing amounts billed, collected, and delinquencies are generated from the computerized utility system, the reports are not reconciled to each other, to bank deposits, or to the City Collector's receipt record. Thus, discrepancies are not investigated and resolved. In March 2008, the City Clerk reviewed deposits for water to determine if the deposits were held on closed accounts, refunded, or transferred to an open account for the same customer. Records show water deposits totaling \$17,770, including an additional \$3,000 recorded twice for the same customers and \$1,000 which may have been refunded. The computerized utility records showed a deposit total of \$21,770. It also appears the city is not properly applying the delinquent payment penalty in compliance with its water regulations.

The city is over-funding the debt service account for its Combined Waterworks/Sewerage System revenue bonds. According to the bond covenant, the debt service account is to be funded up to the total needed for one year's principal and interest.

(over)

YELLOW SHEET

The city does not have formal written bidding and purchasing policies. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. According to the City Clerk, the city frequently obtains proposals or quotes in writing or over the telephone; however, these proposals/quotes are not always retained.

During the period July 2006 to December 2007, bids were either not solicited and/or bid documentation was not retained for the following: \$62,575 for paving, \$2,195 for fencing, \$3,683 for a salt and sand spreader, \$56,823 for water and sewer repairs, and at least \$2,430 for rock. Additionally, supporting documentation for the city's charge cards is not always adequate and not all disbursements are reviewed and approved by the board.

Also included in the audit report are recommendations related to professional services and contracts, board minutes, meetings and ordinances, payroll and personnel issues, and capital assets.

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CITY OF WELLINGTON

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS	4-23
<u>Number</u>	<u>Description</u>
1.	Accounting Controls, Records, and Procedures5
2.	City Collector Controls, Records, and Procedures9
3.	Minutes, Meetings, and Ordinances12
4.	Budgeting, Financial Reporting, and Planning14
5.	Water and Sewer Services16
6.	Disbursements19
7.	Payroll and Personnel Issues21
8.	Capital Assets22
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	24-26

STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Wellington. The city engaged Randall Fiene, Certified Public Accountant (CPA), to audit the city's financial statements for the year ended June 30, 2007. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2007. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the 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 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 Wellington.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Alice M. Fast, CPA
Audit Manager: Toni M. Crabtree, CPA
In-Charge Auditor: Lori Bryant

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

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

1. Accounting Controls, Records, and Procedures
--

There are numerous weaknesses in the city's accounting controls, records, and procedures. An independent review of the City Clerk's activities is not performed, separate funds are not maintained for the utility operations, adequate documentation is not maintained for some expenses, and a fund and/or accounting for law enforcement training (LET) fees has not been established. In addition, the city should consider consolidating its bank accounts and certificates of deposit and bid its bank services. Finally, the city needs to ensure an individual with adequate knowledge and skills prepares and/or oversees the preparation of the city's financial statements and related notes.

- A. There is no independent oversight or adequate segregation of duties related to the city clerk's office. The City Clerk's duties include billing and recording utility payments, performing bank reconciliations, maintaining payroll records, recording disbursement information, preparing and distributing checks, and preparing monthly financial reports. Additionally, the City Clerk provides one of the two required signatures on 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. If proper segregation of duties is not possible, timely supervisory or independent review of the work performed and investigation into unusual items and variances is necessary.

The city's independent auditors also reported this weakness in their report on internal control and compliance for the year ended June 30, 2007.

- B. The city needs to improve its accounting records. A complete financial accounting system has not been established.
1. The city does not maintain separate funds for the financial activity of its utility (water and sewer) operations. Currently, the water and sewer activity is accounted for in the same fund, the Proprietary Fund. The receipts, disbursements, and accumulated balances of the respective utility operations are not accounted for separately.

The utility operations are separate accounting entities designed to account for specific city activities. Utility receipts should be used only to fund the

operations of the respective utility services. Rates for utility services should be set to cover the costs of producing and delivering the service (including administrative costs), repaying debt, if applicable, and repairing and replacing infrastructure.

Receipts and disbursements associated with specific activities should be recorded in a fund established to account for these activities. Complete and organized accounting records are necessary to provide accurate and timely financial information to city officials upon which effective management decisions may be made.

2. Adequate documentation is not maintained to support the allocation of some wage expenses among the various funds.

The City Clerk's wages are allocated equally between the General Fund and the Proprietary Fund. Additionally, \$650 is transferred monthly from the Street Fund to the Proprietary Fund to cover a portion of the water/street department supervisor's salary. No detail of the activities performed by these employees was maintained. Consequently, the city has no support or reasons for these allocations.

The funds of the city are established as separate accounting entities to account for specific activities of the city. Reflecting expenses in the proper fund is necessary to accurately determine the results of operations and/or specific activities; thus, enabling the city to establish the level of taxation and/or user fees necessary to meet operating costs. Also, adequate documentation and proper allocation of expenses is useful for both management and planning purposes. Salary expense should be allocated to the various city funds based on actual time or estimated time based on historical data.

3. Although the city retains an administration fee of 75 cents from each customer's monthly payments for trash services, the city has not documented the administrative costs of providing trash collection services. With an average of 350 trash customers per month, this administrative fee totals over \$3,100 a year. There was no documentation which showed how the administrative fee for the trash service was determined.

The city should calculate and document the administrative costs of providing trash collection services. The user fee charged to city residents should be set at a level sufficient to cover the costs of the service.

4. The city has not established a separate fund and/or accounting for LET fees. These fees are recorded in the General Fund. Although the city has a specific disbursement category for police training, the LET fees are included with other court fees in a revenue category, and a balance for the

fees is not maintained. According to city records, during the year ended June 30, 2007, the city received LET fees totaling \$64 and there were no disbursements for police training.

Section 488.5336, RSMo, provides that LET fees should only be used to pay for the training of peace officers or other law enforcement personnel. In addition, the city cannot retain more than \$1,500 of fees for each certified law enforcement officer. Any excess fees should be remitted quarterly to the city's general fund.

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

- C. The city should consider consolidating its bank accounts and certificates of deposit. At June 30, 2007, the city maintained six checking accounts and two savings accounts, with a cash balance totaling over \$480,000. In July 2007, the city used excess funds to purchase five certificates of deposit.

Except for the separate accounts required by bond covenants, it appears the remaining bank accounts and certificates of deposit could be consolidated to help simplify the city's records and reduce the number of accounts that must be monitored and controlled. A large number of accounts requires additional record keeping and increases the likelihood that errors will occur in the handling of funds. Consolidating accounts would also allow funds to be pooled for increased investment opportunities. At June 30, 2007, the city was earning 0.55 percent and 1.56 percent interest on its general operating and savings accounts, respectively. The city is earning 5.39 percent on its certificates of deposit.

- D. The city has not solicited bids for its bank services. The city has maintained its bank accounts and certificates of deposit with the same bank for many years.

To ensure the quality of banking services and interest earnings received are maximized, the city should procure its banking services through a competitive bid process. In addition, the city should enter into a written agreement with its depository bank which should include, but not be limited to, provisions addressing any bank fees for check printing, checking account services, and interest rates for invested funds. A written depository agreement helps the city and bank understand and comply with the requirements of any banking arrangement.

- E. The city needs to ensure an individual with adequate knowledge and skills prepares and/or oversees the preparation of the city's financial statements and related notes. The financial statements are the responsibility of city's management.

As part of an adequate internal control structure, the city needs an individual who has the appropriate knowledge and skill to prepare and/or oversee the preparation of the city's financial statements and related notes in accordance with accounting principles generally accepted in the United States of America. Although the city clerk appears to have the knowledge and skills to maintain the general ledger, it is unclear that she is familiar with the accounting principles needed to prepare the financial statements. As a result, there is a risk that material misstatements and omitted note disclosures in the financial statements may not be prevented and may go undetected.

The city's independent auditors also reported this weakness in their report on internal control and compliance for the year ended June 30, 2007.

WE RECOMMEND the Board of Aldermen:

- A. 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 reviews of the work performed and investigation into unusual items and variances is necessary.
- B.1. Ensure a complete financial accounting system is established, with specific activities accounted for in separate funds, as appropriate. Additionally, the city should determine and establish the proper balance of the separate funds and maintain the balances in the future.
 - 2. Ensure employee wages are properly allocated to the various funds and are supported by adequate documentation.
 - 3. Review the city's costs of administering the trash pick-up service and document the amount of administration costs associated with the service.
 - 4. Establish a separate fund and/or accounting for the law enforcement training fees and ensure these fees are used in accordance with state law.
- C. Consider consolidating the city's bank accounts and certificates of deposit to the extent possible.
- D. Seek competitive bids for the city's banking services on a periodic basis, and enter into a written agreement with the depository bank.
- E. Ensure an individual who has the appropriate knowledge and skill prepares and/or oversees the preparation of the city's financial statements and related notes.

AUDITEE'S RESPONSE

- A. *The Board of Aldermen agrees with the State Auditor. We are working on implementing this recommendation.*
- B.1. *The Board of Aldermen agrees with the State Auditor. We plan to implement this recommendation but need to evaluate the best way to do this.*
 - 2. *The Board of Aldermen agrees with the State Auditor. We have begun to track some employees' time by activities.*
 - 3. *The Board of Aldermen agrees with the State Auditor. We will document a reason to justify our fee.*
 - 4. *The Board of Aldermen agrees with the State Auditor. We have started a separate accounting for LET fees, and will work on determining a balance of these fees.*
- C. *The Board of Aldermen disagrees with the State Auditor to consolidate bank accounts and certificates of deposit because we are satisfied with the current set-up.*
- D. *The Board of Aldermen disagrees with the State Auditor to seek competitive bids because we wish to remain with the hometown bank; but, we will consider investigating rates at other local banks.*
- E. *The Board of Aldermen disagrees with the State Auditor because we are happy with how the current financial statements are prepared.*

2. City Collector Controls, Records, and Procedures
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The City Collector needs to improve his controls, records, and procedures. There is no independent review of the collector's activities; an account book is not maintained; the board does not approve all additions/deletions to the tax records; the method of payment is not always recorded on the city's copy of tax statements; and reports regarding tax collections and delinquent tax lists are not prepared.

The City Collector collects and deposits most of the city's revenues including property taxes, utility payments, and city licenses. The receipt and deposit records are given to the City Clerk for entry in the city's financial records. During the year ended June 30, 2007, the City Collector collected property taxes and utility payments totaling over \$27,000 and \$216,000, respectively.

- A. The duties performed by the City Collector are not adequately segregated, and there is no independent review of the City Collector's controls, records, and procedures. The City Collector is responsible for performing the following functions:

- Prepares tax bills
- Collects payments
- Records payments
- Makes deposits
- Maintains tax records

To safeguard against possible loss or misuse of funds, internal controls should provide for reasonable assurances that all transactions are accounted for properly, and assets are adequately safeguarded. An adequate system of internal controls requires segregation of duties. If this is not feasible, the board should, at a minimum, designate someone independent of the collection process to perform and document periodic reviews of the procedures and records.

The city's independent auditors also reported this weakness in their report on internal control and compliance for the year ended June 30, 2007.

- B. The City Clerk does not perform an independent verification of the tax book information or totals to ensure they are correct, or charge the City Collector with the amount to be collected. The tax books and tax statements are prepared by the county, and the City Collector manually adds the amount due for city stickers to the tax statements and mails them.

Section 94.290, RSMo, requires the City Clerk to charge the City Collector with the amount to be collected. Verification of tax book information and totals is necessary to ensure the amount charged to the City Collector is complete and accurate and to provide some independent review and control over city tax collections.

- C. The City Collector does not maintain an account book to record property tax charges, additions/abatements, collections, and remaining delinquent taxes. Tax records maintained by the City Collector include the tax books and tax statements. However, the information maintained does not summarize the total taxes charged, added/abated, or collected and delinquent taxes.

A properly maintained account book, including (by type) the property taxes charged to the city collector at the beginning of the year, collections each month, applicable adjustments, and balances uncollected can be useful in preparing the annual report required by state law.

- D. The City Collector posts additions and abatements to the tax books without review and approval by the board. To ensure all additions and abatements are proper, they should be approved by the board, charged to the City Collector, and reflected in the annual report to the board.

- E. A copy of the tax statement serves as the city's record of receipt; however, the method of payment (cash, check, etc.) is not generally recorded on the copy retained by the City Collector. To ensure proper handling and safeguarding of city monies, the method of payment should be indicated on the copy of the paid tax statement and the composition of receipts should be reconciled to the bank deposits.
- F. The City Collector does not prepare appropriate reports for the board as required by state law.
 - 1. A detailed annual report is not prepared. Section 79.310, RSMo, requires the city collector to make a detailed annual report to the board, stating the monies collected during the year, the amounts uncollected, and the names of the persons from which the amounts are uncollected.

A detailed annual report which complies with state law and is classified by type of tax would help provide assurance taxes have been properly collected, written off, or determined to be delinquent. Such a report would summarize all taxes charged to the city collector at the beginning of the tax year, monthly collections, delinquent credits, abatements and additions, and protested amounts. Without such a report, examined by the board, any errors or irregularities that might occur are likely to go undetected.
 - 2. An annual list of delinquent taxes is not prepared. Section 94.320, RSMo, provides the board shall require the city collector, at the first meeting of the board in April each year, to prepare lists of delinquent taxes. This section also requires the board to examine and approve the lists and charge the city collector with the taxes due.
 - 3. The collector's monthly report to the board does not breakdown the tax collections by current or delinquent. Section 94.330, RSMo, requires the city collector to report to the board at the regular meeting each month all taxes collected on real and personal delinquent lists. Additionally, this section provides the board "may declare worthless any and all personal delinquent taxes they deem uncollectible."

WE RECOMMEND the Board of Aldermen:

- A. Designate someone independent to perform and document periodic reviews of the City Collector's records.
- B. Require the City Clerk to verify the accuracy of the tax books and statements. In addition, the City Clerk should charge the City Collector with the amount of taxes to be collected.

- C. Require the City Collector to maintain an account book.
- D. Review and approve all additions and abatements made to the tax book.
- E. Require the City Collector to record the method of payment on the tax statements and reconcile the composition of receipts to bank deposits.
- F.1. Require the City Collector to prepare a detailed annual report for presentation to the board.
- 2. Require the City Collector to prepare an annual list of delinquent taxes for approval by the board. All valid delinquent taxes which the board does not choose to abate or write-off should be charged back to the City Collector for collection in the ensuing year.
- 3. Require the City Collector to include the breakdown of tax collections by current and delinquent on his monthly report to the board.

AUDITEE'S RESPONSE

- A. *The Board of Aldermen agrees with the State Auditor. We plan to implement this recommendation; but need to evaluate the best way to do this.*
- B. *The Board of Aldermen agrees with the State Auditor. We plan to implement this recommendation starting with the 2008 taxes.*
- C. *The Board of Aldermen agrees with the State Auditor. We will work on this recommendation.*
- D&E. *The Board of Aldermen agrees with the State Auditor. We plan to implement these recommendations.*
- F. *The Board of Aldermen agrees with the State Auditor. We will require the City Collector to prepare these reports.*

3. Minutes, Meetings, and Ordinances

The city needs to improve its policies and procedures related to board meetings, and establish ordinances required by state law.

- A. The board minutes are prepared and signed by the City Clerk; however, they are not signed by the Mayor. The minutes should be signed by the Mayor upon approval to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.

- B. The city does not post meeting notices or a tentative meeting agenda. Notices of meetings are printed on the back of the monthly utility bills. Section 610.020, RSMo, requires that a tentative agenda and a meeting notice be posted at least 24 hours prior to all meetings of a public governmental body. The city should ensure that copies of agendas and meeting notices are retained to document compliance with state law.
- C. Minutes are not maintained of closed board meetings. Also, open meeting minutes did not always document the related vote for closing the meeting or cite the specific section allowing closure.

Section 610.021, RSMo, allows the board to close meetings to the extent the meetings relate to specified subjects, including litigation, real estate transactions, and personnel issues, and Section 610.020, RSMo, provides that minutes of closed meetings should be prepared and retained. In addition, Section 610.022, RSMo, requires that before any meeting may be closed, the question of holding the closed meeting and the reason(s) for the closed meeting including reference to a specific section of the chapter shall be voted on at an open session.

- D. The city has not adopted ordinances to address all issues required by state law, including current compensation of elected officials and other city officials and employees, the term of office for the City Clerk, and property tax rates.

While the city has adopted general ordinances for appointed officials that state "compensation shall be set by ordinance," the ordinances do not address the specific compensation to be paid. The last ordinance approved by the board for compensation for full and part-time employees was in 2000 and this ordinance does not reflect current wages for the city employees.

Sections 79.270 through 79.320, RSMo, require the duties, powers, compensation, and terms of office of the city officials and employees be set by ordinance. Sections 94.190.3 and 94.210, RSMo, require the property tax rate be set annually by ordinance.

WE RECOMMEND the Board of Aldermen:

- A. Ensure board minutes are properly signed by the Mayor or some other official to attest to their accuracy.
- B. Ensure meeting notices and tentative agendas of all board meetings are posted and retained.
- C. Ensure minutes are prepared for all closed meetings. The open meeting minutes should document the vote and state the reasons for going into closed session including citing the specific statute allowing closure.

- D. Ensure new ordinances are passed where appropriate and required and the board operates in accordance with established ordinances.

AUDITEE'S RESPONSE

- A&B. *The Board of Aldermen agrees with the State Auditor. We have already implemented these recommendations.*
- C. *The Board of Aldermen agrees with the State Auditor. We will implement this recommendation.*
- D. *The Board of Aldermen agrees with the State Auditor. We have already passed ordinances related to city employees and elected officials, and will pass an ordinance for the 2008 property tax rate.*

4. Budgeting, Financial Reporting, and Planning
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Budgets are not prepared in accordance with statutory provisions, the official budgets are not always updated to reflect budget amendments or retained, and monthly budget to actual reports are not retained. Also, semi-annual financial statements are not published. Finally, the city does not prepare an annual maintenance plan for city streets.

- A. The city does not prepare annual budgets in accordance with statutory provisions. The budgets do not include a budget message and general budget summary or information regarding the city's debt.

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 and well-planned budget, in addition to meeting statutory provisions, can serve as a useful management tool by establishing specific costs and revenue expectation for the city's operations. It will also assist in setting tax levies and informing the public about city operations and current finances.

- B. The official budget reflecting approved budget amendments is not always updated and/or retained.

The board periodically approves budget amendments which increase or decrease a specific revenue or expenditure category or add a category. Although the budget amendments are approved and documented in the minutes, the official budget is not always updated to reflect the amendments or retained. As a result, the current approved budgeted revenues and expenditures cannot always be readily determined.

A complete and accurate budget is needed for the city's management to effectively monitor the city's operations. The city's official budget should reflect all currently approved budget amendments and should be retained.

- C. Although the City Clerk indicated she periodically prepared budget to actual schedules for the board to review, these schedules are not retained and there is no indication of the board's review in the minutes.

A periodic comparison of budgeted versus actual revenues and expenditures is necessary to properly monitor the financial activity of city funds. Monthly budget to actual reports should be prepared, reviewed by the board, and retained.

- D. The city did not publish semi-annual financial statements as required by state law. Instead the city published annual financial statements using information from its audited financial report. In addition, the published statements did not include the indebtedness of the city.

Section 79.160, RSMo, requires the city to prepare and publish semi-annual financial statements. The financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six-month period, and are to be published within one month of the end of the period. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statement is published.

The city's independent auditors also reported this weakness in their report on internal control and compliance for the year ended June 30, 2007.

- E. The city does not prepare an annual maintenance plan for city streets. During the year ended June 30, 2007, the city spent approximately \$36,193 for street maintenance.

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

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

WE RECOMMEND the Board of Aldermen:

- A. Prepare budgets that contain all information as required by state law.
- B. Ensure the official budget is updated to include all approved budget amendments and retained.
- C. Ensure monthly budget to actual reports are prepared, reviewed by the board, and retained.
- D. Publish semi-annual financial statements as required by state law.
- E. Prepare an annual street maintenance plan as part of the budget.

AUDITEE'S RESPONSE

- A. *The Board of Aldermen agrees with the State Auditor to prepare budgets in accordance with statutory requirements. We plan to improve our budgets and include all items required by state law.*
- B-D. *The Board of Aldermen agrees with the State Auditor. We plan to implement these recommendations.*
- E. *The Board of Aldermen agrees with the State Auditor. We do this informally; however, we will now start documenting our plan.*

5. Water and Sewer Services

Various utility reports are not reconciled, adequate records of water deposits are not maintained, and the delinquent payment penalty is not applied in accordance with the city's policy. Also, the debt service account is over-funded.

- A. Although monthly reports comparing amounts billed, collected, and delinquencies are generated from the computerized utility system, the reports are not reconciled to each other, to bank deposits, or to the City Collector's receipt record. Thus, discrepancies are not investigated and resolved. In addition, although the City Clerk indicated she reconciled the batch receipt reports to deposits, the reconciliations are not documented.

For June 2007 activity, 6 of the 16 deposits did not agree to the batch reports, and the total receipts per the batch reports were less than the end-of-month (EOM) payments report. Additionally, there were 12 payments which were deposited and recorded on the computer but were not recorded on the City Collector's receipt record. It appears two of the deposit discrepancies may be due to re-connection

fees not being recorded on the computer, while the other four were due to the City Clerk forgiving penalties.

Monthly accounts receivable listings should be reconciled to beginning accounts receivable, plus billings, less collections and other adjustments. Also, monthly billing/collection reports should be reconciled to each other, to the City Collector's receipt records and to bank activity. Any discrepancies should be investigated and resolved, in a timely manner. Additionally, monthly reports of adjustments, such as forgiving penalties, should be presented to the board for approval.

- B. Controls over water deposits need to be improved. Although the water deposits are recorded on the computerized utility system, a summary account (beginning balance, plus deposits, less refunds, and ending balance) is not maintained. City residents are required to pay a refundable deposit for water service. The water deposits represent a liability to the city.

In March 2008, the City Clerk reviewed the deposits to determine if the deposits were held on closed accounts, were refunded, or transferred to an open account for the same customer. Her records show water deposits totaling \$17,770. She also identified an additional \$3,000 recorded twice for the same customers and \$1,000 which may have been refunded. The computerized utility records showed a deposit total of \$21,770.

To ensure the city is properly holding water deposits from customers, a summary account should be maintained and periodically reconciled to the computerized records. Without these reconciliations, the possibility of undetected errors increases.

- C. It appears the city is not properly applying the delinquent payment penalty in compliance with its water regulations. The city's ordinance for water service rates provides that a ten percent penalty may be charged and added to the water bill for non-payment, 20 days after the bill is due.

The city considers the due date as the end of the month the bills are mailed. Thus, the delinquent penalty should be applied if the payment is not received by the 20th of the next month. However, the penalty is automatically applied to billing statements by the computerized utility system when the billing statements are prepared and mailed the first week of the next month.

The board should evaluate their policies and procedures regarding this situation, and ensure the delinquent penalty is applied in accordance with its water rate ordinance.

- D. The city is over-funding the debt service account for its Combined Waterworks/Sewerage System revenue bonds. During the year ended June 30,

2007, the month-end balance of the debt service account was over \$80,000 for nine months and over \$50,000 for the other three months.

According to the bond covenant, the debt service account is to be funded up to the total needed for one year's principal and interest. From 2008 to 2012, the principal and interest payments total less than \$39,000 each year, with the last principal and interest payment in 2013 totaling less than \$57,000.

The city could reduce its funding of the debt service account to only the amount needed to make the annual principal and interest payments and use the excess funds for water/sewer expenses.

WE RECOMMEND the Board of Aldermen:

- A. Ensure monthly accounts receivable listings are reconciled to beginning accounts receivable, plus billings, less collections and other adjustments, and the monthly utility billing/collection reports are reconciled to each other, to the City Collector's receipt records, and to bank deposits. Any discrepancies should be investigated and resolved in a timely manner. Monthly reports of adjustments should be presented to the board for approval.
- B. Ensure adequate records of water deposits are maintained, including deposits received, disbursed, and the balance, which should be reconciled to the computerized records on a periodic basis.
- C. Ensure the delinquent penalty is applied in accordance with the water rate ordinance.
- D. Reduce the funding of the debt service account to the amount needed to make the annual principal and interest payments.

AUDITEE'S RESPONSE

A&B. The Board of Aldermen agrees with the State Auditor. We will implement these recommendations.

C. The Board of Aldermen agrees with the State Auditor. We have fixed the problem by amending the ordinance to agree with our actual practice.

D. The Board of Aldermen agrees with the State Auditor. We will reduce the funding of the debt service account.

6.**Disbursements**

The city does not have formal written policies for bidding or written agreements for legal services. Documentation supporting credit card charges is not adequate and all disbursements are not reviewed and approved by the board.

- A. The city does not have formal written bidding and purchasing policies. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. According to the City Clerk, the city frequently obtains proposals or quotes in writing or over the telephone; however, these proposals/quotes are not always retained.

During the period July 2006 to December 2007, bids were either not solicited and/or bid documentation was not retained for the following: \$62,575 for paving, \$2,195 for fencing, \$3,683 for a salt and sand spreader, \$56,823 for water and sewer repairs, and at least \$2,430 for rock. Also, the City Clerk stated the city's insurance has not been bid for many years. The city spent over \$10,000 for insurance during the year ended June 30, 2007. Additionally, a request for proposals was not prepared for the city's legal services, which totaled over \$3,200 during the year ended June 30, 2007.

Formal bidding procedures provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. In addition, Section 376.696, RSMo, requires competitive bidding for insurance at least every six years. Competitive bidding/proposals also helps ensure all parties are given equal opportunity to participate in the city'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 why the bid was selected.

The city's independent auditors also reported this weakness in their report on internal control and compliance for the year ended June 30, 2007.

- B. The city did not have formal written agreements with the individuals providing legal services mentioned above, the city/prosecuting attorney and municipal judge or with the individual hired to replace the city's fire hydrants.

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 for political subdivisions be in writing.

- C. Supporting documentation for the city's charge cards is not always adequate. The city uses charge cards to buy office supplies, equipment and gasoline.

Generally, the actual charge receipt is not submitted to support the charges. The city pays from the credit card billing statement. The actual charge receipt needs to be submitted to support charges in order to evaluate whether the expenses are for official city business.

- D. All disbursements are not reviewed and approved by the board. Bills paid electronically, such as for electricity and cellular phones, rather than by check are not given to the board to review and approve. In addition, 5 of 14 invoices tested were not initialed by board members. The city's practice is for two board members to initial invoices to indicate the board's review and approval.

To adequately document the board's review and approval of all disbursements, a detailed list of disbursements should be prepared, signed/initialed by the aldermen to denote their approval, and retained with the official minutes. In addition, supporting documentation should be reviewed by the board or someone independent of the disbursement process before payment is made. Failure to properly review all invoices and supporting documentation, and to document authorizations, increases the possibility of inappropriate disbursements occurring.

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 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. Require credit card charges be supported by the actual charge receipt.
- D. Ensure the approval of all disbursements is adequately documented by including a listing of all approved disbursements in the board minutes.

AUDITEE'S RESPONSE

A&C. The Board of Aldermen agrees with the State Auditor. We are working on implementing these recommendations.

B. The Board of Aldermen agrees with the State Auditor. We have already obtained a written agreement with the city attorney, and plan to obtain written agreements for future professional services.

D. The Board of Aldermen agrees with the State Auditor. We have already implemented this recommendation.

The city should require time sheets be prepared by all employees and approved by the applicable supervisor. The city also needs to maintain adequate leave records, and ensure its compensatory time policy is in compliance with the Fair Labor Standards Act (FLSA).

- A. Time sheets are prepared by some employees; however, these time sheets are not signed by the employee and do not indicate review and approval by the supervisor. Also, part-time employees including the city clerk, police chief, court clerk, animal control officer, and animal control clerk do not prepare time sheets. In addition, the city has not adequately documented the number of hours these part-time employees are expected to work.

All employees should prepare time sheets that reflect actual time worked. Properly completed time sheets showing actual hours worked each day by function or activity and time taken off, along with the employee's and supervisor's signatures are necessary to ensure that payroll expenditures are proper. Time sheets also provide the city with a method to monitor hours worked and ensure the related compensation is reasonable. The city needs to establish the number of hours part-time employees are expected to work.

- B. The city does not maintain leave records showing amounts earned, taken, and balances. Full-time employees (currently one individual) earn from one to two weeks of vacation and five days of sick leave per year.

Accurate and properly maintained leave records would provide assurance that leave policies are being followed.

- C. The city's compensatory time policy is not adequate, and records of compensatory time earned, taken, and any accumulated balances are not maintained. The city's compensatory policy provides that any time which exceeds 40 hours per week may be taken as compensatory time, and the compensatory time must be used within 30 days or forfeited.

City employees other than elected officials may fall under the guidelines of the FLSA. The FLSA provides that employees not exempt from the act receive pay or compensatory time at the rate of time and one-half, and that employees can accumulate a maximum of 240 hours of compensatory time; overtime hours exceeding this threshold must be paid in wages on the next pay date.

In December 2006, the city paid the one full-time employee \$329 for 47 hours of compensatory time, at straight time based on his records. Also, from a review of his time sheets, it appears that he was counting all hours worked outside his regular scheduled work hours as overtime rather than only those hours worked over 40 for the week. Additionally, this payment did not go through the payroll

system. Thus, the appropriate payroll taxes were not withheld and paid or reported on his W-2 form.

The city needs to ensure its compensatory/overtime policy is in compliance with the FLSA, and compensatory leave records showing leave earned, taken, and any accumulated balances should be maintained. Adequate compensatory records are necessary to ensure payments and balances are accurately calculated. The failure to properly compensate employees could open the city to claims for back pay and/or fines. Additionally, the city needs to contact the IRS and/or the Missouri Department of Revenue for guidance regarding the overtime payment.

WE RECOMMEND the Board of Aldermen:

- A. Require all employees to complete time records which reflect actual time worked and appropriate detail of work performed and leave taken. The records should be signed by the employee and approved by the supervisor. In addition, the board should document the number of hours a part-time employee is expected to work.
- B. Maintain records of vacation and sick leave that provide a complete record of the amount of leave earned, taken and any accumulated balances.
- C. Ensure its compensatory/overtime policy is in compliance with the FLSA. Adequate records of compensatory time earned, taken, and any accumulated balances should be maintained. The city should also contact the IRS and/or the Missouri Department of Revenue for guidance regarding the overtime payment.

AUDITEE'S RESPONSE

A&B. The Board of Aldermen agrees with the State Auditor. We have already implemented these recommendations.

C. The Board of Aldermen agrees with the State Auditor. We have already revised the city's compensatory time policy, and will contact the IRS.

8.

Capital Assets

The city needs to improve internal controls over its capital assets. 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.

There are separate lists of property for city hall, collector's office, city clerk's home office, maintenance building, and police department, plus deeds for city owned real estate. However, these property lists did not always include all relevant information such as make, model, serial numbers, historical costs, or acquisition date. Some lists included

a line for office furniture and office equipment, but not the details. Also, a digital camera purchased for the police department was not included on the department's listing, nor was the office furniture and equipment for the water technician's home office included on a property list.

Property records for capital assets 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. Annually, the city should conduct physical inventories and compare to the detailed records.

WE RECOMMEND the Board of Aldermen maintain complete and detailed capital asset records that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. These records should be updated for any property additions and dispositions as they occur. In addition, annual physical inventories should be performed and compared to the detailed records.

AUDITEE'S RESPONSE

The Board of Aldermen agrees with the State Auditor. We are working on implementing this recommendation.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF WELLINGTON
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Wellington is located in Lafayette County. The city was incorporated in 1891 and is currently a fourth-class city. The population of the city in 2000 was 784.

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended June 30, 2007, are identified below. The Mayor was paid \$100 per month and board members were each paid \$40 per month.

<u>Mayor and Board of Aldermen</u>	<u>Dates of Service During the Year Ended June 30, 2007</u>	<u>Compensation Paid for the Year Ended June 30, 2007</u>
Charles Morgan, Mayor	July 2006 to June 2007	\$ 1,200
James Potter, Alderman (1)	July 2006 to June 2007	480
A. Kent Rogge	July 2006 to June 2007	480
Anthony Rukavina	April 2007 to June 2007	120
David Russell	July 2006 to March 2007	360
Richard Rukavina	July 2006 to June 2007	480

<u>Other Officials</u>	<u>Dates of Service During the Year Ended June 30, 2007</u>	<u>Compensation Paid for the Year Ended June 30, 2007</u>
Jerry Jennings, Collector*	July 2006 to June 2007	\$ 8,820
Mary Ann Campbell, City Clerk	July 2006 to June 2007	8,190
Steve Ryun, Police Chief	July 2006 to June 2007	14,545
Kelly Logan, Court Clerk(2)	July 2006 to June 2007	300
William Piedimonte, Municipal Judge (3)	July 2006 to June 2007	2,020
James Hall, City and Prosecuting Attorney (4)	July 2006 to June 2007	1,207

* Elected position

(1) Mr. Potter resigned in November 2007. Charlotte Uptegrove was appointed to replace him in January 2008.

(2) Ms. Logan was paid \$50 for each court session.

(3) Mr. Piedimonte was paid \$125 per hour as municipal judge.

(4) Mr. Hall was paid \$170 for each court session as city prosecuting attorney, plus \$85 per hour for city attorney services.

In addition to the officials identified above, the city employed 1 full-time employee and 7 part-time employees on June 30, 2007.

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

ASSESSED VALUATIONS	2007	2006
Real estate	\$ 4,526,814	3,929,882
Personal property	1,502,264	1,566,897
Railroad and utility	306,070	298,104
Total	<u>\$ 6,335,148</u>	<u>5,794,883</u>

TAX RATE PER \$100 ASSESSED VALUATION

	2007	2006
General	\$.4560	.4857

During the fiscal year ended June 30, 2007, the city made principal and interest payments totaling \$33,538 on its Combined Waterworks and Sewerage System Revenue Bonds. The final principal and interest payments are due in 2013. The current principal balance as of June 30, 2007 is \$195,000.