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Missouri State Auditor

City of Pleasant Hope



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Missouri State Auditor

YELLOW SHEET

Findings in the audit of the City of Pleasant Hope

Potential Conflicts of Interest	A number of transactions were noted between the city and businesses owned by an Alderman or relatives of an Alderman for purchases of various goods and services.
Bidding Procedures	While the city made improvements to its bidding procedures and adopted a bid policy in December 2008, several items purchased in 2008 were not bid and the new bid policy does not require the Board to document emergency situations when bids are not obtained. The city did not solicit proposals for engineering services for construction of a bridge and has contracted for legal and audit services with its current attorney and independent auditor for several years without conducting a selection process. The city has not periodically solicited proposals from various banking institutions for the deposit of city monies and does not have a written agreement with its depository bank.
Disbursements	Employees were not always required to submit invoices for employee reimbursements. As a result of not adequately reviewing disbursements, the city was not aware of a duplicate payment made to a former Alderman. Controls over the city's credit and debit cards need improvement, and prevailing wage rates are not adequately monitored by the city. Fuel and usage logs are not maintained for the city's equipment and vehicles, and fuel usage is not reconciled to fuel purchases. The city has not entered into a written rental agreement for use of a garage owned by the local fire department.
Restricted Monies	The city has not established adequate procedures to ensure disbursements are properly allocated among funds and restricted monies are disbursed only for their intended purpose. The city did not track the balance of state motor vehicle-related monies, and Police Officer Standards Training and Law Enforcement Training fees are not properly accounted for separately or maintained in a separate fund. Documentation does not exist to support the allocation of some disbursements to city funds.
Federal Emergency Management Assistance	The Board did not obtain reimbursement of Federal Emergency Management Agency (FEMA) funds for work completed related to an approved FEMA project. The city did not solicit bids for some excavation work and supplies purchased as required by FEMA.
Payroll Controls and Procedures	The city overpaid the former Chief of Police \$1,201 for additional vacation hours upon his resignation. The city did not require employees to provide proof of payment for outside insurance premiums paid by the employees, which were reimbursed by the city. In addition, these payments were not included on the employees' W-2 form and were not subjected to payroll tax withholdings. The city did not require timesheets be prepared or records of vacation and sick leave be maintained for employees until January 2009.

During 2007, additional compensation was paid to a former City Clerk and a former part-time meter reader; however, timesheets or other supporting documentation was not retained to support this additional compensation. In addition, these payments were not included on the employees' W-2 form and were not subjected to payroll tax withholdings. City personnel files are incomplete.

Utility Controls and Procedures

Significant problems were identified in the control procedures related to the city's utility system. The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid for utility services. There is no independent approval of adjustments posted to the utility system and the justification or reasons for the adjustments are not adequately documented. Sewer and water service is not always shut-off in accordance with city ordinance when accounts are delinquent, the city has not established formal written policies and procedures related to payment plans, and some city ordinances are not enforced. Deposits totaling at least \$2,700 were held for 71 customers no longer receiving utility services. While the city maintains a list of water deposits, a separate fund is not maintained; therefore, the list of water deposits cannot be reconciled to related balances. The city does not adequately account for deposits charged to owners of rental properties. The city has not performed a formal review of the water and sewer rates for several years.

Accounting Controls and Procedures

Accounting duties are not adequately segregated, and improvement is needed in the handling of city receipts. The cash balances on the city's balance sheet were overstated because the City Clerk did not properly record interest earned and the redemption and purchase of several CDs. Controls over the petty cash fund need improvement.

Budgets, Financial Reporting, and Maintenance Plans

The city's 2009 and 2008 budgets were not accurate and complete. The city overspent the budget during the year ended December 31, 2007, and the 2008 budget was not approved by the Board until March 2008. The city did not submit an annual financial report to the State Auditor's office for the year ended December 31, 2008, and formal maintenance plans for the city's utility system and roads have not been prepared.

Other findings in the audit report relate to meeting minutes, ordinances, and board approval, and capital asset and inventory procedures.

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SUSAN MONTEE, JD, CPA
Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Pleasant Hope. The city engaged Davis, Lynn, and Moots, P.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended December 31, 2008; however, the audit has not been completed. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2008. 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. Evaluate the city's internal controls over significant management and financial functions.
3. Evaluate the city's compliance 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. 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 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 Pleasant Hope.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CIA, CGFM
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In-Charge Auditor:	Natalie B. McNish
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City of Pleasant Hope Management Advisory Report State Auditor's Findings

1. Potential Conflicts of Interest

A number of transactions were noted between the city and businesses owned by an Alderman or relatives of an Alderman for purchases of various goods and services.

- The city conducted business with a local construction company owned by former Alderman Mullings' father while she served in office. During the period of January 2007 through April 2008, the city disbursed a total of \$43,891 to this business. Former Alderman Mullings did not abstain from the approval of disbursements to this business totaling \$28,061. In addition, bid documentation was not retained by the city for \$14,777 of these disbursements.
- The city paid a local automobile repair shop co-owned by former Alderman Bradford to complete most repair and general maintenance work to city vehicles while he served in office. During the period of January 2007 through July 2007, the city disbursed a total of \$2,448 to this business. Former Alderman Bradford did not abstain from the approval of disbursements totaling \$1,332 to his business. In addition, the city did not solicit bids for these services.

Officers of a city serve in a fiduciary capacity. Personal interests in business matters of the city could create actual and the appearance of conflicts of interest. Officials should abstain from any type of involvement in decisions which relate to themselves or relatives. In addition, Sections 105.454 and 105.458, RSMo, prohibit financial transactions between the city and elected or appointed officials which involve more than \$500 unless there has been public notice to solicit proposals and competitive bidding, provided the bid or offer accepted is the lowest received. The Board should also consider establishing a policy that addresses these types of situations and provides a code of conduct for city officials.

Recommendation

The Board of Aldermen closely examine transactions to identify and avoid apparent and actual conflicts of interests. City officials who have a conflict should fully disclose their interest and should not vote on matters that involve them personally. Such matters and transactions should be completely documented so the public has assurance no official or relative has profited improperly. The Board should ensure strict compliance with the law when conducting official business and establish a policy addressing these issues.

Auditee's Response

The Mayor and Board of Aldermen provided the following written response:

We will establish a policy which addresses possible conflicts of interest involving members of the city council and other elected officials. We will establish a policy addressing prohibition of financial transactions pursuant to RSMo 105.454 and 105.458. We will establish a policy relating to conflict



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of interest, when voting on matters which involve the Board personally. The City Clerk will make every effort to note in the minutes any abstentions due to conflict of interest.

2. Bidding Procedures

Improvement is needed in the city's bidding practices.

2.1 Bidding policy and procedures

Although the city made improvements to its bidding procedures and adopted a bid policy in December 2008, several items purchased in 2008 were not bid. In addition, the new bid policy does not require the Board to document emergency situations when bids are not obtained. Bids were not solicited or bid documentation was not retained for the following purchases made during 2008:

Item Purchased	Cost
Waterline replacements	\$ 4,100
Water pressure system and tank rental	3,950
Pump repairs	3,892
Propane	2,605
Cellular phone service	2,597

In addition, due to the lack of formal written bid policies and procedures in 2007, the decision of whether to solicit bids for a particular purchase was made on an item-by-item basis, and bids were not solicited or bid documentation was not retained for the remodeling of the former city hall costing \$6,715, the purchase of a mini-truck costing \$5,299, or the purchase of a snow plow costing \$4,300.

In 2007, the city also failed to document its reasons for accepting other than the low bid for debris clean up and removal. The city advertised for proposals and three bids were submitted; however, the lowest bid was not selected. According to city officials, the lowest bidder retracted its bid before the bid was awarded and the second lowest bidder was awarded the contract; however, documentation of the retraction was not retained by the city. The city paid \$50,751 to this vendor.

The city's new bid policy requires three verbal bids for purchases costing less than \$500, three written bids for purchases costing between \$500 and \$2,000, and formal advertising for bids for purchases costing more than \$2,000.

Formal bidding procedures for major purchases provide a framework for economical management of the city's resources and help ensure the city receives a fair value by contracting with the lowest or best bidder. Competitive bidding also helps ensure all parties are given an equal



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opportunity to participate in the city's business. 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 and proposals received and the reasons why a bid or proposal was selected. In addition, justification and documentation of emergency purchases should be retained by the city, and the new policy should be amended to include this requirement.

2.2 Professional services

The city has not solicited proposals for various professional services.

- The city did not solicit proposals for engineering services for construction of a bridge. The city has paid the engineer \$25,101 for work completed on the project through December 2008. Sections 8.285 to 8.291, RSMo, provide guidance on obtaining, evaluating, and negotiating such services. These sections, in part, require the city to obtain annual statements of qualifications and performance data from interested engineers and consider at least three highly qualified engineers.
- The city has contracted for legal and audit services with its current attorney and independent auditor for several years without conducting a selection process. The city paid \$8,239 and \$3,000 for legal and audit services, respectively, during the year ended December 31, 2008.

Selection processes are necessary to ensure the city is receiving the best services and rates. The process should include advertising and soliciting proposals and evaluating the proposals for technical experience, capacity and capability of performing the work, past record of performance, and the firm's proximity to and familiarity with the city. Information concerning the selection process should be documented and retained.

2.3 Banking services

The city has not periodically solicited proposals from various banking institutions for the deposit of city monies and does not have a written agreement with its depository bank including the services the bank will perform for the collection of utility payments.

A periodic evaluation of proposals from various banking institutions would provide the Board with current information for making sound banking decisions. In addition, a depository agreement is necessary to ensure all parties are aware of duties and responsibilities. The agreement may include costs of bank services and safe deposit boxes, interest charges for borrowed funds, interest to be paid on investments, collateral securities required to be pledged by the bank, and requirements for the collection of utility payments. Further, Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.



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Recommendations

The Board of Aldermen:

- 2.1 Amend the newly adopted policy to require justification and documentation of emergency purchases and enforce the bidding policy and related procedures. Complete documentation of the bidding process should be maintained, including all bids received and justification for selecting, rejecting, or not obtaining bids.
- 2.2 Solicit proposals for professional services.
- 2.3 Solicit proposals from various banking institutions on a periodic basis and enter into a depository agreement with the selected bank.

Auditee's Response

The Mayor and Board of Aldermen provided the following written responses:

- 2.1 *We are reviewing the current bid policy in conjunction with emergency situations and will update/revise the policy to include documentation for justification of the purchases and will enforce the bidding policy and related procedures for all situations. Bids for propane service, trash service, and healthcare services have been completed for 2009. Contracts have been signed and are on file with all the bid information.*

We will solicit bids for other services as necessary. All documentation for bids will be retained per the Secretary of State Retention Schedules.

www.sos.mo.gov/archives/localrec/schedules/municpl.asp

- 2.2 *We will solicit bids for legal services for 2010 and will also solicit bids for audit services for the 2009 audit. Future engineering services will be selected by the bid process as provided by RSMo Sections 8.285 thru 8.291 and City Ordinance 244. All bid documentation will be retained and kept on file. Contracts will be signed and placed on file.*
- 2.3 *We have sent out letters for sealed banking service bids within the city limits of the city. These bids will be opened at the October 19, 2009, meeting. Selection will be done in accordance with Missouri Statutes, and we will have a formal depository agreement on file by November 1, 2009.*

3. Disbursements

Controls and procedures over city disbursements including adequate supporting documentation, credit and debit cards, prevailing wages, fuel, and written agreements need improvement.



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3.1 Adequate supporting documentation

No documentation was retained by the city for purchases totaling \$589 to a local small engine store, and as a result, the city had no assurance the purchases were for city business and the purchased items were received. In addition, employees were not always required to submit invoices for employee reimbursements. For example, a former City Clerk was reimbursed over \$1,700 in 2007, without being required to submit adequate supporting documentation for expenses incurred. Most documentation submitted was prepared by the former City Clerk on her personal stationary. These expenses included software updates, office supplies, computer equipment, business cards, stationary, development of pictures, and web page set-up and maintenance charges. The former City Clerk resigned in October 2007. All disbursements should be supported by paid receipts or vendor invoices to ensure the obligation was actually incurred and disbursements represent appropriate uses of public funds.

3.2 Duplicate payments and receipt of goods or services

As a result of not adequately reviewing disbursements, the city was not aware of a duplicate payment. The city reimbursed former Alderman Bradford \$114 twice (on May 15, 2007, and again on May 22, 2007) for repairs made by the repair shop co-owned by the Alderman. In addition, the acknowledgement of receipt of goods or services is rarely indicated on invoices prior to approval for payment.

A thorough and documented review of disbursements reduces the possibility of duplicate payments, and documentation of the receipt of goods or services is necessary to ensure the city actually received the items or services. In addition, the Board should seek reimbursement of the double payment from the former Alderman.

3.3 Credit and debit cards

Controls over the city's credit and debit cards need improvement. The city has not adopted formal policies and procedures for the use of these cards. We also noted the following additional concerns:

- The city charged \$734 to a discount store credit card during the year ended December 31, 2008, and adequate supporting documentation was not retained for \$390 of these transactions.
- City officials indicated the cards were intended to be used for small purchases of office supplies, meals, and travel expenses. However, we noted three laptop computers were purchased for a total of \$1,564, and a digital camera was purchased for \$189.

Complete and detailed written credit and debit card policies and procedures are necessary to provide guidance to employees. The city should develop policies that require all invoices to be submitted prior to payment of credit and debit card statements, and purchases to be approved by someone other than the card user. The city should perform an adequate review of all card



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purchases to ensure expenses paid are necessary, reasonable, and adequately documented.

3.4 Prevailing wages

Prevailing wage rates are not adequately monitored by the city. The city hired a local construction company to complete a bridge replacement project in 2008. While the city did require and retain an affidavit from the company stating the company would agree to pay prevailing wages, the city did not require the contractor to provide supporting documentation of wages paid to ensure compliance with prevailing wage laws. The city paid this vendor \$135,997 for this project. In addition, the city hired a local construction company for various city projects and did not require the company to pay prevailing wages. The city paid this vendor \$41,776 during the year ended December 31, 2008.

Section 290.230, RSMo, requires prevailing wages to be paid to all workers employed by or on behalf of any public body, who perform construction work projects other than routine maintenance. Without supporting documentation of wages paid, the city cannot ensure compliance with state law.

3.5 Fuel and usage logs

Fuel and usage logs are not maintained for the city's equipment and five vehicles and fuel usage is not reconciled to fuel purchases. The city purchases fuel and other supplies from several local gas stations, and as a result, we were unable to determine the amount the city specifically spent on fuel.

Fuel and usage logs are necessary to document the appropriate use of equipment and vehicles and to support fuel charges. The logs should include the date, driver, purpose, and destination of each trip; daily beginning and ending odometer or hour readings for vehicles and equipment; and amount of fuel pumped. The logs should then be reconciled to fuel purchases. Failure to account for fuel purchases could result in loss, theft, and misuse going undetected.

3.6 Written contracts

The city has not entered into a written rental agreement for use of a garage owned by the local fire department. In lieu of rent, the city mows the fire department's property and does not charge the fire department for water usage. In addition, the city does not track the fire department's water usage to ensure the exchange is reasonable.

Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. In addition, the city should track the fire department's water usage to ensure the exchange is reasonable.



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Recommendations

The Board of Aldermen:

- 3.1 Require adequate supporting documentation for all disbursements, including employee reimbursements.
- 3.2 Ensure all invoices are adequately reviewed to reduce the possibility of duplicate payments, and require all invoices be initialed or signed by an employee to indicate acceptance of goods or services. In addition, the Board should seek reimbursement of the double payment from the former Alderman.
- 3.3 Adopt formal policies and procedures for credit and debit card usage that include requiring adequate documentation be maintained and reconciled to billing statements, and purchases be approved by someone other than the card user.
- 3.4 Ensure adequate supporting documentation is submitted to substantiate prevailing wages are paid on construction projects as required by law.
- 3.5 Require usage logs be maintained for all city owned vehicles and equipment, and fuel logs be reconciled to fuel purchases. A periodic review should be performed to ensure the reasonableness of the fuel purchases and usage. In addition, all reviews and reconciliations should be documented.
- 3.6 Enter into written agreements with all parties that clearly detail the services to be performed and the compensation to be paid or benefits received. In addition, the city should track the fire department's water usage.

Auditee's Response

The Mayor and Board of Aldermen provided the following written responses:

- 3.1 *We will require receipts and other supporting documentation for all expenses before disbursements will be made. The City Clerk has implemented a process that requires the signature of whomever received the goods and the date that the goods were received. Purchase orders will be created and tracked against the invoices. The Mayor will review and initial the invoices when checks are ready for his signature. We will receive a more detailed list of pending bills. The pending bill list will become part of the formal meeting minute documentation and kept with the minutes.*
- 3.2 *We have directed the City Clerk to contact former Alderman Bradford and request that he either provide documentation to*



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substantiate two separate invoices or repay the city \$114. The City Clerk has implemented a process that requires the signature of whomever received the goods and the date that the goods were received.

3.3 *We have on the agenda for September, to approve Bill #93 which denies the use of a credit or debit card in order to circumvent the bidding process. We are currently writing a more inclusive debit and credit card policy for all business practices that will include an oversight process to ensure that all charges are necessary, reasonable, and adequately documented.*

3.4 *We will, in the future, when dealing with contractors or subcontractors hired to do construction work in connection with public works, require prevailing wages be paid and ensure that prevailing wages have been paid as part of the construction contract.*

3.5 *We have implemented a mileage/fuel tracking log for all city equipment. These logs are completed and turned in at the end of each month, and the City Clerk matches the logs with fuel purchases from various vendors inside the city limits. Specific use of vehicles is noted on the tracking logs so that the cost of fuel can be paid from the appropriate city services department's fuel budget. These logs will be reviewed by the Board monthly.*

We will solicit a bid for a fuel service provider for the year 2010.

3.6 *We now have a contractual agreement on file for a reciprocity agreement with the fire department. The water department has started reading and accounting for the water used at the fire department. All future services and compensation paid for services shall all be initialed with a contractual agreement per RSMo 432.070.*

4. Restricted Monies

The city has not established adequate procedures to ensure disbursements are properly allocated among funds and restricted monies are disbursed only for their intended purpose.

4.1 State motor vehicle-related receipts

While the city tracks the receipts and expenses related to the state motor vehicle-related receipts in the city's General Fund, the balance of these monies is not tracked by the city.

Article IV, Section 30, Missouri Constitution, requires motor vehicle-related receipts apportioned by the state of Missouri be disbursed for street related purposes only. To ensure compliance with the Missouri Constitution, the



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city should determine state motor vehicle related receipts collected that remain unspent and transfer the balance to a separate fund or maintain a separate accounting of the balance of these monies.

4.2 Police Officer Standards Training and Law Enforcement Training

Police Officer Standards Training (POST) and Law Enforcement Training (LET) fees are not properly accounted for separately or maintained in a separate fund. Currently, all training monies received from these fees are deposited in the city's General Fund with other non-restricted monies.

Section 488.5336.2, RSMo, requires POST and LET fees, respectively, to be used only for the training of law enforcement officers. The city should determine law enforcement training fees collected and transfer the fees to a separate Police Training Fund or maintain a separate accounting of the funds to ensure the fees are used in accordance with state law.

4.3 Allocation of disbursements and salaries

Documentation does not exist to support the allocation of some disbursements to city funds as follows:

- The city paid \$11,500 from the Sewer Fund to purchase a patrol car in November 2006.
- The city paid \$6,000 from the Water Fund to purchase a truck in February 2007, which city officials indicated was primarily used to maintain city streets.
- Rent for city hall totaling \$500 per month is paid 2/3 and 1/3 from the General Fund and Water Fund, respectively.
- Some disbursements were paid from the General Fund, which could have been paid from other city funds including the purchase of a mini-truck for \$5,299 in October 2007, which is used by all city departments.
- The City Clerk's salary is paid entirely from the Water Fund; the Director of City Services' salary is paid from the Water Fund and his health insurance is paid from the Sewer Fund; and the Water/Sewer Operator's salary is paid entirely from the Sewer Fund. However, not all of their duties are related to those funds. Timesheets are currently prepared by all employees; however, no documentation is maintained to separately indicate the number of hours worked for each city service.

The funds of the city are established as separate accounting entities to account for specific activities of the city. Generally accepted accounting principles and various legal restrictions require receipts and disbursements associated with specific activities be reflected in the fund established to account for those activities. Reflecting receipts and disbursements in the proper fund is also necessary to accurately determine the results of



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operations and/or specific activities; thus, enabling the city to establish the level of taxation and/or user fees necessary to meet operating costs. In addition, documentation should be maintained to support the allocations used.

Recommendations

The Board of Aldermen:

- 4.1 Ensure compliance with the Missouri Constitution by tracking the balance of state motor vehicle-related monies.
- 4.2 Establish a separate accounting for POST and LET fees to ensure compliance with state law.
- 4.3 Ensure disbursements and salaries are properly allocated to the applicable city funds and allocations are supported by adequate documentation. A plan should be established for repayment of monies spent which were unrelated to water and sewer services.

Auditee's Response

The Mayor and Board of Aldermen provided the following written responses:

- 4.1 *We have directed the City Clerk to do the research necessary to attain a retained earnings amount for state motor vehicle receipts and expenses after which a separate bank account will be established.*
- 4.2 *We have directed the City Clerk to do the research necessary to attain a retained earnings amount for POST and LET receipts and expenses after which a separate bank account will be established.*
- 4.3 *We implemented timesheets in April 2009, for all employees, but will review the timesheets and revise as necessary to include the ability to track each employee's time as it relates to each city service. The City Clerk will then prepare a payroll report which provides documentation for the payroll breakdowns for each city service and move the appropriate money from each fund to the payroll fund.*

We will direct the City Clerk to document and align all expenditures with the appropriate city service.

We will establish a plan for repayment of monies incorrectly spent out of the Sewer and Water Funds.



5. Federal Emergency Management Agency Funds

The Board did not obtain reimbursement of Federal Emergency Management Agency (FEMA) funds for work completed related to an approved FEMA project. The city did not solicit bids for some excavation work and supplies purchased as required by FEMA.

Flooding in August 2008 and ice storms in January 2007 caused significant damage to city property and roads, and as a result, the city received approximately \$195,000 in FEMA grants for repairs, restoration, and debris removal. The grants received required the city to match 25 percent of the costs.

5.1 De-obligation of funding

On December 15, 2008, the Board voted to de-obligate (return) \$12,844 of FEMA funds received because the city did not believe it had sufficient matching funds and was concerned about incurring higher independent audit costs. According to the Mayor, city employees and local volunteers removed debris and completed work at the city park related to the de-obligated project; however, the costs related to this project were not tracked by the city. The wages paid to the city employees on this de-obligated project would have been 75 percent reimbursable by the FEMA grant, if adequate supporting documentation of time and work completed had been maintained and submitted for reimbursement.

To maximize city revenues, in the future, the city should maintain adequate documentation of time and work completed on approved FEMA projects and submit it for approval to retain the approved funding.

5.2 Bidding

The city did not solicit bids for some excavation work performed to remove debris and reconstruct creek beds. The city paid a local construction company \$18,181 during the 2 years ended December 31, 2008, for these services; however, bid documentation was retained for only \$5,647. In addition, the city purchased gravel, water line supplies, and top soil costing \$5,214 from this same vendor during the 2 years ended December 31, 2008, without soliciting bids.

The FEMA documentation guide requires advertisement and solicitation of bids for construction or debris removal services. The guide also requires the city to obtain a price or rate quotation from an adequate number of qualified sources for supplies purchased.

Recommendations

The Board of Aldermen:

- 5.1 In the future, ensure records are maintained for work completed on approved FEMA projects and are submitted for approval to FEMA.
- 5.2 Ensure bids are solicited as required by FEMA guidelines.



Auditee's Response

The Mayor and Board of Aldermen provided the following written responses:

5.1 *We will ensure that work records are maintained for all future FEMA projects, and all FEMA requirements and guidelines are followed.*

5.2 *We will ensure that all bid requirements as set forth in city Ordinance #245 are followed for any future FEMA projects.*

6. Payroll Controls and Procedures

Improvement is needed over payroll policies and procedures.

6.1 Calculation of final paycheck

The city overpaid the former Chief of Police \$1,201 upon his resignation. The city paid the Chief for 80 hours of vacation leave totaling \$981 on September 12, 2008, then the Board of Aldermen approved an additional payment for another 40 hours of vacation leave totaling \$490 during a meeting held on September 15, 2008.

The former Chief of Police submitted a letter of resignation in September 2008 after 2 years and 9 months of employment with the city, and requested payment for 4 weeks (160 hours) of vacation. However, the personnel manual effective at the time only provided 7 days (56 hours) for the third year of employment. The personnel manual also indicated vacation leave must be used in the year earned and could not be accrued. Further, while timesheets or leave records were not prepared by the Chief, the city's computerized payroll system indicated 34 hours of leave had been used during 2008 by the Chief.

Based on the city's personnel policy and computerized payroll system, the Chief should have only been paid for 22 hours of vacation leave, or \$270.

To ensure all employees are treated equitably and compensated properly, personnel policies should be followed to aid in the determination of an employee's final paycheck.

6.2 Health insurance premiums

The city did not require employees to provide proof of payment for outside insurance premiums paid by the employees, which were reimbursed by the city. In addition, these payments were not included on the employees' W-2 forms and were not subjected to payroll tax withholdings. During 2008, the City Clerk and Water/Sewer Operator were reimbursed \$4,743 and \$266, respectively, for health insurance premiums because they did not participate in the city's health insurance plan.



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IRS regulations provide when an employer issues a check to an employee to pay for health insurance premiums without requiring proof of payment, the amount is a taxable fringe benefit. The Board should require adequate supporting documentation be submitted by the employees or report these payments on the employees' W-2 forms and subject them to payroll tax withholdings.

6.3 Timesheets and leave records

The city did not require timesheets be prepared or records of vacation and sick leave be maintained for employees until January 2009. Timesheets are necessary to document hours worked, substantiate payroll disbursements, provide the city with a method to monitor hours worked and leave taken, are beneficial in demonstrating compliance with FLSA requirements, and would aid the city in allocating payroll costs to specific activities (see MAR finding number 4.3). In addition, without leave records, the city cannot ensure vacation and sick leave balances are accurate and all employees are treated equitably. Leave records also aid the city in determining unused leave upon termination of employment, in the event a dispute arises.

6.4 Additional compensation

During 2007, additional compensation totaling \$690 was paid to a former City Clerk for work related to the preparation of FEMA grants and \$429 was paid to a former part-time meter reader for maintenance work on city equipment and vehicles; however, timesheets or other supporting documentation was not retained to support this additional compensation. In addition, these payments were not included on the employees' W-2 forms and were not subjected to payroll tax withholdings. Also, it is unclear how the work performed was not within the normal job duties of these employees.

Any overtime or additional part time hours worked should be reported on the employees' timesheets and compensated as such to ensure compliance with the FLSA. The city should amend these employees' W-2 forms for these payments.

6.5 Personnel files

City personnel files are incomplete. Personnel files should be maintained for all employees to provide documentation of personnel actions and to provide readily accessible work histories. The personnel files should contain documentation of the Board's authorization for the hiring of the employee, the pay rate at which the employee was hired, and any subsequent changes in pay rate. Currently, the city relies on prior meeting minutes to document these items.

Recommendations

The Board of Aldermen:

- 6.1 Ensure personnel policies are followed in determination of final payroll checks.



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- 6.2 Require adequate supporting documentation of amounts paid to employees for health insurance premiums to be submitted or report these payments on the employees' W-2 forms and subject them to payroll tax withholdings. In addition, the Board should amend the employees' 2008 W-2 forms.
- 6.3 Continue to require all employees prepare timesheets and maintain leave records.
- 6.4 Ensure additional time worked is reported on employee timesheets and compensated properly. In addition, the Board should amend the employees' 2007 W-2 forms.
- 6.5 Ensure complete personnel files are maintained for all employees.

Auditee's Response

The Mayor and Board of Aldermen provided the following written responses:

- 6.1 *We implemented a personnel manual on September 15, 2008. The payroll system in Quick Books has been updated to track vacations and sick time. Timesheet tracking and a formal time-off request form has been implemented to assist in proper documentation and time tracking.*
- 6.2 *We have acquired all documentation related to reimbursement for healthcare expenses and will, in the future, require such documentation before payment is made.*
- 6.3 *We currently require employees to prepare timesheets and will ensure that documentation for personal leave and hours worked are tracked properly and appropriately charged to specific city services.*
- 6.4 *We will ensure that all work performed for the city by a city employee is compensated through payroll and that all hours worked are accurately documented through the use of time sheets.*

We have directed the City Clerk to prepare amended W-2 forms for the former City Clerk and the former part-time meter reader.
- 6.5 *We have directed the City Clerk to review the content of each employee's personnel file and make sure all documentation pertaining to the individual is in the file and then to continue to keep the files current with all the required documents.*



7. Utility Controls and Procedures

Significant problems were identified in the control procedures related to the city's utility system. As a result of these weaknesses, there is less assurance all utility monies have been accounted for properly, and utility charges are set at the appropriate level to cover the cost of providing the related services.

7.1 Reconciliation of utilities

The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid for utility services including water and sewer. The city utilizes a computerized system to record meter readings, prepare bills, and record payments of utility fees.

Monthly reconciliations are necessary to ensure all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis.

7.2 Adjustments

There is no independent approval of adjustments posted to the utility system and the justification or reasons for the adjustments are not adequately documented. The City Clerk collects utility payments and has the ability and authority to post adjustments to the computer system without obtaining independent approval. For example, during the year ended December 31, 2008, 167 credit/debit adjustments were made to customer accounts in the net amount of \$90,740 without any independent approval. Included in this amount is a debit adjustment of \$80,145 made to a customer account, and the only documentation maintained was a note indicating the adjustment was for a "major correction."

To ensure all adjustments are valid, someone independent of receipting and recording functions should review and approve all adjustments, and proper supporting documentation should be maintained of such adjustments.

7.3 Shut-off procedures

Sewer and water service is not always shut-off in accordance with city ordinance when accounts are delinquent. In 1996, the Board approved utility services to be disconnected if the customer's bill was not paid 30 days after the billing period. This ordinance was amended on October 6, 2008, and required utility service to be disconnected if the customer's bill was not paid by the end of each month. We noted instances where utility service was not disconnected when customer accounts became delinquent. For example, during the year ended December 31, 2008, some Board members and several residents had delinquent utility accounts not paid within the required time period; however, service was not disconnected.

Allowing customers to receive utility service without paying reduces the incentive to make payments and may result in a loss of revenue to the city. The city's failure to disconnect service for elected officials in accordance with local ordinance creates the appearance these officials may have benefited improperly. The members of the Board of Aldermen serve the city in a fiduciary capacity. Failure to pay their own utility accounts could harm



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public confidence and reduce their effectiveness. The city should ensure utility service is shut-off in accordance with city ordinances.

7.4 Delinquent accounts and penalties

The city has not established formal written policies and procedures related to payment plans and some city ordinances are not enforced. Currently, the city allows some utility customers to set up payment plans with the City Clerk to pay off delinquent utility accounts and avoid disconnection from utility services. Customers are required to sign a payment plan documenting a monthly payment amount (determined by the customer), which will be applied to delinquent balances. The payment plan also requires the customer to pay all current balances due. If the customer does not comply with the payment plan, utility services are shut off and the city refers the delinquent account to a collection agency.

In addition, city ordinance requires any payments received after the 15th of the month to be subject to a 5 percent penalty; however, during our review of customer accounts, no utility customers were charged penalties for payments received after the 15th of the month.

To ensure all delinquent utility accounts are handled equitably and in a consistent manner and payment plans are properly approved, formal policies and procedures should be established for payment plans and penalties should be assessed in accordance with city ordinance.

7.5 Deposits

Controls over water and rental property deposits should be improved. As of June 9, 2009, the city held approximately \$7,900 in water deposits for 144 customers.

Customer refunds

Deposits totaling at least \$2,700 were held for 71 customers no longer receiving utility services. According to city ordinance, deposits paid by renters are to be held until the city receives notification of moving and final payment of the account, and deposits paid by homeowners may be refunded after 12 consecutive months of paying bills on time. The city should attempt to refund these deposits in accordance with city ordinances.

Accounting for deposits received

While the city maintains a list of water deposits, a separate fund is not maintained; therefore, the list of water deposits cannot be reconciled to related balances. To ensure records are in balance and all water deposits are accounted for properly, the water deposit list should be reconciled to the fund balance monthly. Any differences should be investigated and any unidentified amounts should be disposed of properly.

Rental property deposits

The city does not adequately account for deposits charged to owners of rental properties. Currently, the city charges a \$100 deposit to owners of rental properties to use water/sewer service to clean the residence before renting it to a new tenant. Monies received for deposits are held by the city



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until the owner notifies the city the water/sewer service is no longer needed. Upon notification, if less than 50 gallons of water is used, the deposit is given back to the owner, and if water usage is more than 50 gallons of water, the monies are deposited and credited against the owner of the rental property's bill. The city does not issue receipt slips or maintain a list of these deposits nor does it track the disposition of each deposit. In addition, the city has not established an ordinance related to these deposits.

Failure to record and deposit these monies increases the risk of misuse. To ensure rental property deposits are properly handled, receipt slips should be issued and a list of deposits received and subsequent disposition should be maintained. In addition, the city should deposit all monies received in a timely manner, and if a refund is due, a refund check should be issued. Also, the city should establish an ordinance regarding the requirement and use of these deposits.

7.6 Water and sewer rates

The city has not performed a formal review of the water and sewer rates for several years. In December 2006, the Board passed an ordinance to increase water rates, and in May 2008, the Board passed another ordinance to decrease water rates. Both of these rate changes were based on information provided by the United States Department of Agriculture (USDA) regarding the rate structure needed to ensure the city could repay debt service obligations to the USDA; however, the city did not complete a formal rate study or allocate payroll and other costs appropriately to ensure the rates charged would also cover its costs of operation.

Sewer rates have not been increased since 2004, and a formal rate study has not been completed. In addition, Sewer Fund disbursements exceeded receipts by \$16,168 for the year ended December 31, 2007, according to the city's independent audit report.

Water and sewer fees are user charges that should cover the cost of providing the related services, but rates should not be set at a level which results in excessive fund balances. The city should perform a detailed review of its water and sewer costs, including depreciation and debt service costs, and set rates to cover the total costs of operation.

Recommendations

The Board of Aldermen:

- 7.1 Ensure monthly reconciliations of the amounts billed to amounts collected and delinquent accounts are performed. In addition, the Board should ensure adequate documentation to support reconciliations is retained.



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- 7.2 Require someone independent of the utility system review and approve all adjustments and ensure adequate documentation is retained of such adjustments.
- 7.3 Ensure water service is shut-off in accordance with city ordinance.
- 7.4 Establish formal written policies and procedures for the handling of delinquent accounts and assess penalties in accordance with city ordinance.
- 7.5 Attempt to refund water deposits held for individuals who are no longer utility customers and reconcile the water deposit list to the related fund balance. Any unidentified amounts should be disposed of in accordance with state law. In addition, the Board should issue receipt slips and maintain a list of rental property deposits and disposition, deposit these monies in a timely manner, and issue refunds checks for any overpayments. Further, the Board should establish an ordinance regarding the requirement and use of these rental property deposits.
- 7.6 Review water and sewer rates periodically to ensure receipts are sufficient to cover all costs of providing these services, but not set at a level that results in excessive fund balances.

Auditee's Response

The Mayor and Board of Aldermen provided the following written responses:

- 7.1 *We have directed the City Clerk to establish a manual ledger to help in the reconciliation of the WaterWorks software to the QuickBooks software to ensure that all payments are accounted for in each system. A reconciliation will be performed on a monthly basis.*
- 7.2 *We acknowledge the large amount of adjustments that were made in 2008. These adjustments were made as part of a clean-up of old inactive records from 2006-2008, that should have been taken care of on a monthly basis rather than allowed to accumulate over time. In the future, we will ensure that all adjustments are prepared with supporting documentation. The Mayor will review all adjustments before water bills are created. An adjustment report is currently being prepared by the City Clerk and presented to the Board each month.*
- 7.3 *We will ensure we pay our utility bills promptly each month and that shut-off procedures are strictly adhered to regardless of status*



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in the community. The City Clerk is currently presenting the Board with a delinquent/shut-off list each month.

7.4 *We will establish a formal written policy and procedures resolution to ensure that all delinquent accounts are fairly and consistently handled and that all payment plans are properly approved and penalties are assessed in accordance with city Ordinance #243.*

7.5 *We have directed the City Clerk to research all water deposits since 2005, and to determine if they should be refunded or placed against the accounts unpaid final bill and make every effort to refund the money according to city ordinance and state mandates.*

We will, once the water deposit research is complete, separate the water deposits into a new fund and reconcile the amounts held each month.

We have directed the City Clerk to immediately open a new water account for the landlord deposits and account for the deposits in accordance to the city ordinance 243(a).

7.6 *We will begin a study of both the water and sewer rates after all the audit tracking policies have been written and implemented, but no later than July 1, 2010. The rate study reports will be reviewed by the Board at the first regular January 2011 meeting.*

8. Accounting Controls and Procedures

Accounting duties are not adequately segregated and improvement is needed in the handling of city receipts. The cash balances on the city's balance sheet were overstated because interest earned and the redemption and purchase of several certificates of deposits (CDs) were not properly recorded. Improvement is needed in the controls and procedures over the city's petty cash fund.

8.1 Segregation of duties

Accounting duties are not adequately segregated. The City Clerk is responsible for all record keeping duties for the city including receiving and depositing monies, preparing and distributing checks, recording receipts and disbursements, signing checks, and reconciling bank accounts.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurances all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving, recording, and disbursing monies from reconciling accounting records to bank statements. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent review of bank reconciliations, a reconciliation of receipts and deposits, and a comparison of invoices and disbursements.



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8.2 Receipt slips

Receipt slips are only issued for monies upon request, and when issued, receipt slips are not accounted for properly. Although duplicate receipt slips are used, one copy is given to the payee and the other copy is torn out of the receipt book and filed with information related to the receipt, and as a result, the receipt slips cannot be accounted for easily. In addition, the composition of receipt slips is not reconciled to the composition of deposits.

Without issuing and accounting for official prenumbered receipt slips for all monies collected and reconciling the composition of receipts to the composition of deposits, the city cannot ensure all monies collected are ultimately deposited.

8.3 Overstated balance sheet

The cash balances on the city's December 31, 2008, balance sheet were overstated because the City Clerk did not properly record interest earned and the redemption and purchase of several CDs. For example, three CDs included on the balance sheet were redeemed prior to December 31, 2008, and a CD purchased in October 2008 was not included on the balance sheet. To be of maximum assistance to the Board and to adequately inform the public, the accounting records of the city should accurately report financial activity and CD balances.

8.4 Petty cash fund

Controls over the petty cash fund need improvement. The city maintains a \$150 petty cash fund to be used for small emergency purchases and supplies. The fund is replenished by writing checks from various city funds. We noted the following concerns:

- The petty cash fund was not maintained on an imprest basis (at a set amount). The balance of the fund fluctuated during 2008.
- The City Clerk does not maintain a petty cash ledger or proper documentation to support the receipts and disbursements of the petty cash fund.
- Some petty cash fund disbursements were not supported by vendor invoices.

To ensure petty cash funds are accounted for properly, the petty cash fund should be maintained on an imprest basis, where petty cash on hand plus the total of all paid invoices should always equal the predetermined balance of the petty cash fund. The petty cash fund should only be reimbursed by city checks equal to the amount of the paid invoices, and all petty cash reimbursements should be reviewed by an independent person. The city should maintain a petty cash ledger documenting receipts, disbursements, and the balance of the petty cash fund, and retain documentation to support all disbursements of the fund.



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Recommendations

The Board of Aldermen:

- 8.1 Segregate accounting duties to the extent possible and ensure periodic supervisory reviews are performed and documented.
- 8.2 Ensure receipt slips are issued for all monies received, properly account for the numerical sequence of official receipt slips issued, and reconcile the composition of receipts to the composition of amounts deposited.
- 8.3 Ensure accounting records accurately reflect the financial activity including interest earned and balances of CDs.
- 8.4 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 ledger of petty cash fund transactions should be maintained to properly document the financial activity of the fund, and adequate supporting documentation should be retained for all petty cash disbursements.

Auditee's Response

The Mayor and Board of Aldermen provided the following written responses:

- 8.1 *We will ensure that a supervisory review is performed by the Mayor. The Mayor is currently reviewing and signing off on bank reconciliations. The Mayor is also reviewing invoices that are matched to the disbursement checks when presented for payment signature.*
- 8.2 *We will review this process and decide on a plan of action.*
- 8.3 *We will enlist the help of a CPA on correcting entries in Quick Books.*
- 8.4 *We have directed the City Clerk to eliminate the use of petty cash. All expenditures will require a detailed signed receipt and be placed on the pending bills report each month for reimbursement.*

9. Budgets, Financial Reporting, and Maintenance Plans

Controls and procedures over city budgets are in need of improvement. The city did not submit an annual financial report to the State Auditor's office as required, and formal maintenance plans for the city utility system and roads have not been prepared.

9.1 Budgets

The city's 2009 and 2008 budgets were not accurate and complete.



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- The 2009 budget did not contain a budget message or a budget summary.
- The budgets did not include estimated receipts from all sources with a comparative statement of actual receipts for the 2 preceding years.
- The budgets included proposed disbursements for the year; however, they did not include a comparative statement of actual disbursements for the 2 preceding years.
- The budgets did not include the beginning and ending estimated fund balances.
- Documentation of public hearings for the adoption of the city's budgets was not maintained.

Sections 67.010 to 67.040, RSMo, establish specific guidelines as to the format and approval of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations and provides a means to effectively monitor actual costs and receipts.

9.2 Overspending of budget

Actual disbursements of the city exceeded budgeted amounts by \$124,870 during the year ended December 31, 2007. The independent audit has not been completed for 2008, and the Board did not periodically compare actual disbursements to budgeted amounts. As a result, we were unable to determine if actual disbursements exceeded budgeted amounts during the year ended December 31, 2008. Section 67.040, RSMo, indicates a political subdivision shall not increase the total amount authorized for disbursements unless the governing body adopts a resolution setting forth the reasons making the increase necessary and approves or adopts a resolution to authorize the additional disbursements.

9.3 Timely adoption of budget

The 2008 budget was not approved by the Board until March 2008. Section 67.070, RSMo, requires if a new budget is not adopted by the beginning of the new year, the Board should operate under the prior year's budget. To be of maximum benefit to the taxpayers and the city, the budget should be adopted in a timely manner.

9.4 Financial reporting

The city did not submit an annual financial report to the State Auditor's office for the year ended December 31, 2008. Section 105.145, RSMo, requires each political subdivision to file an annual report of its financial transactions with the State Auditor's office.



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9.5 Maintenance plans

Formal maintenance plans for the city's utility system and roads have not been prepared. The city's budget document presents proposed activities in general categories which contain significant dollar amounts; however, it does not provide details regarding specific projects or plans. Specific projects are also not documented in meeting minutes or made available to the public.

Formal maintenance plans should be prepared in conjunction with the annual fiscal budget and include a description of the type of work to be performed, cost estimates, the dates such work could begin, and other relevant information. The plan should be referred to in the budget message and be approved by the Board. In addition, the Board should consider holding a public hearing to obtain input from city residents. Such a plan would serve as a useful management tool, encourage greater input into the overall budgeting process, and provide a means to continually and more effectively monitor repair and maintenance projects throughout the year.

Recommendations

The Board of Aldermen:

- 9.1 Prepare complete and accurate budget documents and ensure budget hearings are held to obtain input from city residents.
- 9.2 Periodically monitor actual disbursements to budgeted amounts and ensure actual disbursements do not exceed budgeted amounts. If circumstances require disbursements in excess of the amounts budgeted, a formal resolution should be adopted authorizing the additional disbursements and the reasons for such.
- 9.3 Ensure budgets are prepared timely and in compliance with state law.
- 9.4 Submit annual financial reports to the State Auditor's office as required by state law.
- 9.5 Establish a formal annual maintenance plan for the utility system and roads.

Auditee's Response

The Mayor and Board of Aldermen provided the following written responses:

- 9.1 *We will prepare a complete and accurate budget and ensure that a budget hearing is held to obtain input from city residents.*
- 9.2 *We will review the budget quarterly and prepare a formal resolution to authorize the additional disbursements with documentation for the reasons for such.*



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- 9.3 *We will ensure that budgets are prepared in a timely manner and in compliance with state law.*
- 9.4 *We will ensure that annual financial reports are made to the State Auditor's office as required by state law. The City Clerk has submitted all required financial reports to the State Auditor's office and will, in the future, submit the annual report on time.*
- 9.5 *We will establish a formal maintenance plan for the utility systems and the city streets.*

10. Meeting Minutes, Ordinances, and Board Approval

The city did not always ensure compliance with the Sunshine Law and improvement is needed in the city's ordinances. In addition, the Board did not formally approve or document some decisions made relating to the redemption of a CD.

10.1 Meeting minutes

Meeting minutes did not always include sufficient detail of matters discussed. There were several instances where the open meeting minutes indicated citizens voiced concerns regarding various issues; however, no detail of the concerns were documented. In addition, while several closed meeting minutes indicated the meeting was closed to discuss litigation or personnel, the closed meeting minutes did not include details of the discussion to ensure it was appropriate for a closed meeting. Also, there was no evidence a roll call vote was taken during open meetings to close any of the meetings.

To ensure the Board's intentions are clear and to demonstrate compliance with state law, discussions should be adequately documented. In addition, Chapter 610.020.7, RSMo, requires meeting minutes to at least include the date, time, place, members present, members absent, and a record of any votes taken. Also, Section 610.022, RSMo, requires the Board to vote in open session to close a meeting and to announce publicly the reasons for going into closed session.

10.2 Ordinances

Improvement is needed in city ordinances. We noted the following concerns during our review of ordinances:

- The city has not adopted ordinances to adequately establish the compensation of some city officials and employees. While the city has adopted an ordinance addressing specific compensation of the City Attorney and the Municipal Judge, ordinances have not been adopted for other officials and employees.

Sections 79.270 and 79.290, RSMo, require the Board of Aldermen to fix the salaries of all city officials and employees by ordinance. To



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avoid misunderstandings, the Board should adopt ordinances that specify the compensation of all city officials and employees.

- Ordinances were not always properly updated for Board decisions. For example, on December 11, 2006, the Board passed an ordinance that set the minimum water usage rate at \$37.35 for the first 1,000 gallons used and \$2.20 for each additional 1,000 gallons of usage. On January 8, 2007, the Board approved setting the minimum water usage charge at \$26.58 for the first 1,000 gallons used and \$2.20 for each additional 1,000 gallons of usage; however, the Board did not amend the original ordinance for this change or formally adopt a new ordinance. While the original ordinance was not amended, the former City Treasurer only charged residents the new minimum water usage rate of \$26.58 each month.

Since ordinances represent legislation passed by the Board of Aldermen to govern the city and its residents, it is important the city's ordinances be maintained in an up-to-date manner. A list of all ordinances passed and repealed by the city could help keep track of additions and changes made to the city ordinances.

10.3 Board approval

On April 7, 2008, the Board approved the City Clerk redeeming a CD and establishing separate checking accounts for the Park Fund and Transportation Fund. However, the City Clerk redeemed the \$34,652 CD in June 2008, deposited it into another bank account, and used it to pay for a paving project. Separate checking accounts for the Park Fund and Transportation Fund were not established. While the Mayor indicated the City Clerk discussed this change with him and the Board, the Board did not formally approve or document this decision.

To ensure city monies are used as intended, the Board should ensure all decisions are formally approved and documented.

Recommendations

The Board of Aldermen:

- 10.1 Ensure meeting minutes (open and closed) include the information necessary to provide a complete record of all significant matters discussed and actions taken and a roll call vote is taken during open meetings to close any meetings.
- 10.2 Establish the compensation of all city officials and employees by ordinance as required by statute, and update the city ordinances for any Board decisions.
- 10.3 Ensure all Board decisions are formally approved and documented.



Auditee's Response

The Mayor and Board of Aldermen provided the following written responses:

- 10.1 We will ensure that the meeting minutes both open and closed include the information necessary to provide a complete record of all significant matters discussed, actions taken, abstentions, and roll call votes.*
- 10.2 We will ensure that all ordinances are maintained in a complete, well organized, and up-to-date manner. We have on the agenda for September, Bill #92 which establishes the compensation of all city officials as required by statute.*
- 10.3 We will ensure that all Board decisions are formally documented, approved, and implemented.*

11. Capital Asset and Inventory Procedures

The city does not maintain complete and current records for its capital assets and inventory records are not maintained to account for supplies and materials purchased or stored for the operation of the city.

11.1 Capital asset records

The city does not maintain complete and current records for its capital assets including land, buildings, equipment, and other property. Also, property is not tagged for specific identification, and an annual physical inventory is not performed.

Adequate capital asset records are necessary to secure better internal controls and safeguard city assets that are susceptible to loss, theft, or misuse; and to provide a basis for determining proper insurance coverage.

11.2 Inventory records

Inventory records are not maintained to account for supplies and materials purchased or stored for the daily operations of the city. The city typically stockpiles gravel, culverts, and other supplies at various locations in the city. Without inventory records, the city cannot effectively evaluate the reasonableness of purchases and usage of supplies and materials, and theft and improper use may go undetected.

Recommendations

The Board of Aldermen:

- 11.1 Ensure property records are maintained that include all pertinent information for each asset such as tag number, description, cost, acquisition date, location and subsequent disposition. Property records should be compared to the city's insurance coverage. The Board should also properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory.



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11.2 Maintain adequate inventory controls and records to account for city supplies and materials.

Auditee's Response

The Mayor and Board of Aldermen provided the following written responses:

11.1 We will ensure that the asset records are kept up-to-date and include a tag number, description, cost, acquisition date, location and subsequent disposition date. We will require a semi-annual audit to be conducted by an Alderman or the Mayor.

11.2 We will require an annual update of the asset records and a full accounting of any supplies or materials that were purchased and stored for future use.

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Organization and Statistical Information

The City of Pleasant Hope is located in Polk County, Missouri. The city was incorporated in 1980 and is currently a fourth class city.

Mayor and Board of Aldermen

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, 2008, are identified below. The Mayor and members of the Board of Aldermen receive no compensation.

Name and Title	Dates of Service During the Year Ended December 31, 2008
John Homer, Mayor	January - December
Kelly Crites, Alderman (1)	January - May
Dawn Buckner, Alderman	June - December
Gwen Parker, Alderman (2)	January - July
Richard Harralson, Alderman	August - December
Josh Norton, Alderman (3)	January - March
Eric Hindes, Alderman	April - December
Anita Mullings, Alderman (4)	January - March
Gary Dooley, Alderman	April - December

- (1) Kelly Crites resigned from the Board in May 2008. The Board of Aldermen appointed Dawn Buckner to fill the remainder of her term.
- (2) Gwen Parker resigned from the Board in July 2008. The Board of Aldermen appointed Richard Harralson to fill the remainder of her term.
- (3) Josh Norton was replaced by Eric Hindes, who was elected in April 2008.
- (4) Anita Mullings was replaced by Gary Dooley, who was elected in April 2008.

Other Officials and Employees

Name and Title	Dates of Service During the Year Ended December 31, 2008	Compensation Paid for the Year Ended December 31, 2008
Georgia L. Esser, City Clerk	January - December	\$ 21,859
Jamie M. Hannaford, City Treasurer (1)	January - April	4,780
Paul B. Byer, Police Chief (2)	January - September	19,289
Christian L. Mueller, Police Chief	October - December	4,652
Rick J. Davis, Director of City Services	January - December	21,808
Mel L. Gilbert, City Attorney	January - December	8,239

- (1) Jamie M. Hannaford terminated employment with the city on April 11, 2008. This position has not been filled.
- (2) Paul B. Byer resigned on September 12, 2008. Christian L. Mueller was hired to fill this position on October 6, 2008.

The city did not employ any other employees other than those listed above on December 31, 2008.