



Susan Montee, JD, CPA
Missouri State Auditor

City of Hayti Heights



June 2009

Report No. 2009-57

auditor.mo.gov



Office of the
Missouri State Auditor
Susan Montee, JD, CPA

June 2009

The following findings were included in our audit report on the city of Hayti Heights.

Given the concerns noted in our report and the responses received from the city, it is apparent that the Board of Aldermen was not adequately monitoring the city. The responses from the Board of Aldermen indicate the board members were unaware of various procedures and requirements. Because of the lack of accounting records and financial reporting, it is not clear whether the Board of Aldermen and Mayor are fully aware of the poor financial condition and outstanding debt of the city. The Board needs to take a more active role in city business and take steps to improve the financial condition, records, and internal controls of the city. In addition, there is no evidence the elected officials are providing the guidance and controls necessary to ensure the continuing operations of the city.

The city's total bank balance was \$4,940 at June 30, 2008. Annual receipts from the city's major funding sources are estimated to be approximately \$208,000 per year and annual payroll is approximately \$160,000, leaving only \$48,000 to operate the water, sewer, and refuse services, and fund remaining operations of the city each year. In addition, the city has substantial outstanding debt totaling at least \$229,000 at June 30, 2008, including \$70,391 due to vendors, at least \$38,238 due in payroll and unemployment taxes, a \$30,207 balance on a fire truck loan, and \$90,755 due on a sewer loan. Also, various officials have loaned the city approximately \$8,700, and the city does not have sufficient funds to cover water deposits totaling \$15,750.

The board did not approve a budget for the year ended June 30, 2008, and the Mayor indicated a budget had not been approved for several years. The city has not published semi-annual financial statements or submitted annual financial reports, and does not obtain annual audits, as required by state law.

Internal controls and accounting records of the city of Hayti Heights were inadequate. Budget and financial records accounting for city funds, including receipts and disbursements, have not been prepared. In addition, bank reconciliations are not prepared and transfers between funds are not adequately documented. As a result, there is no assurance all monies collected were accounted for properly.

The city does not maintain a general ledger system, disbursement record or listing, or a running cash balance. For disbursements, the only record is bank statements which simply show the check numbers and amounts. The city has no accounting record indicating the amount of cash available at any time, which has led to several overdrafts and service charges. An incorrect rate is used to calculate and charge sales tax on water sales and amounts collected are not paid to the Missouri Department of Revenue as required. The City Clerk is responsible for all record keeping duties of the city and no person independent of the cash custody and record-keeping functions provides adequate supervision or review of the work performed by the City Clerk. City records are not well organized, and some records were missing or could not be located in a timely manner.

YELLOW SHEET

In May 2008, receipt slips issued exceeded amounts deposited by \$3,129. Vendor receipts totaling \$786 for cash purchase/payments were located, leaving an identified difference of \$2,343. Due to the lack of records, we could not determine whether these monies were used for cash purchases or were missing. Prenumbered receipt slips are not issued for some monies received. The city does not indicate which receipts are included in deposits, reconcile the composition of receipt slips issued to the composition of deposits, account for the numerical sequence of receipt slips or deposit monies intact.

The city has not established a separate accounting for motor vehicle receipts, capital improvement sales tax monies, local law enforcement training fees, health property tax receipts, and water, sewer and refuse receipts, and does not maintain proper documentation to support transfers between funds. Also, water, sewer, and refuse receipts are deposited haphazardly into various checking accounts allowing restricted monies to be commingled and used for general operations of the city. The city does not maintain adequate records for water deposits or allocate disbursements and salaries between various funds. In addition, the city has not conducted a recent formal cost study to ensure rates charged for water, sewer, and refuse services are adequate.

Controls and procedures over city disbursements are in need of significant improvement. As a result, there is no assurance all disbursements were properly handled, recorded, approved, or used for city business. The board does not approve disbursements prior to payment of invoices, and adequate documentation is not retained for some disbursements. Blank checks are signed in advance and some purchases do not appear reasonable. The city reimburses the Mayor for gasoline expense for his personal vehicle without requiring the Mayor to account for city-related travel expenses.

Complete personnel files are not maintained by the city for each employee. Salaried employees and the Court Clerk do not submit time sheets, and records are not maintained of vacation, sick leave, and compensatory time earned, taken, or accumulated for each employee. The city does not appropriately file and disburse the required payroll taxes and withholdings, and payroll registers were not complete.

Adequate written agreements were not obtained for several loans from city officials and board approval was not documented. The Mayor indicated he lent the city \$5,000 in April 2008 from his personal monies to pay back the amount of grant funds misspent by the city. The Police Chief currently does not pay for his water and sewer services as repayment for a loan he made to the city. The city failed to track the amount and length of time the Police Chief has not been billed for water and sewage services or the amount still due to the Police Chief. Additional loans totaling \$3,700 were made by the Police Chief and other elected officials.

Other findings in the audit report relate to maintenance plans for the streets, as well as the water and sewer systems, capital asset records, property tax records and procedures, ordinances, Sunshine Law compliance, and grant accounting.

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CITY OF HAYTI HEIGHTS

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS	4-34
<u>Number</u>	<u>Description</u>
1.	Financial Condition.....5
2.	Budgets and Financial Reports7
3.	Accounting Controls and Procedures10
4.	Receipt Controls and Procedures13
5.	Capital Assets and Vehicle Usage14
6.	Maintenance of Streets, Water, and Sewer Systems.....16
7.	Property Tax Collections16
8.	Restricted Receipts19
9.	Disbursement Controls and Procedures23
10.	Payroll.....26
11.	Meeting Minutes and Ordinances29
12.	Loans.....32
13.	Grants.....34
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	35-38

STATE AUDITOR'S REPORT



SUSAN MONTEE, JD, CPA
Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Honorable Mayor
and
Members of the Board of Aldermen
City of Hayti Heights, Missouri

The State Auditor was requested by former Governor Matt Blunt, under Section 26.060, RSMo, to audit the city of Hayti Heights. Significant concerns had been expressed by taxpayers. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2008. The objectives of our audit were to:

1. Obtain an understanding of taxpayer 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. 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. 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.

Internal controls and accounting records of the city of Hayti Heights were inadequate. Budget and financial records accounting for city funds, including receipts and disbursements, have not been prepared. In addition, bank reconciliations are not prepared and transfers between funds are not adequately documented. As a result, we were unable to design and perform procedures to provide reasonable assurance of detecting instances of noncompliance significant to legal provisions.

Except as discussed in the preceding paragraph, 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 Hayti Heights.

An additional report, No. 2009-33 *Thirty-Fourth Judicial Circuit, City of Hayti Heights Municipal Division*, was issued in April 2009.



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
Audit Manager: Debra S. Lewis, CPA
In-Charge Auditor: Steven Re', CPA

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF HAYTI HEIGHTS
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.

Financial Condition

The city of Hayti Heights is in poor financial condition and there is no evidence the elected officials are providing the guidance and controls necessary to ensure the continuing operations of the city. The city's total bank balances decreased from \$21,846 at June 30, 2007, to \$4,940 at June 30, 2008. The poor condition of city records and lack of financial statements made it impossible to review for unusual trends which might have affected the decreasing cash balance.

Annual receipts from the city's major sources, including water, sewer, and refuse services; sales taxes; court costs and fines; and utility and property taxes, are estimated to be approximately \$208,000 per year. The city's annual payroll is approximately \$160,000 (see MAR finding number 10 for payroll and salary concerns), over 76 percent of the city's annual receipts, leaving only \$48,000 to operate the water, sewer, and refuse services and fund remaining operations of the city each year. The city uses restricted receipts to fund general operations of the city (see MAR finding number 8).

In addition, the city has substantial outstanding debt (see MAR finding numbers 9 and 10). The city has several outstanding loans, is in arrears on payments to numerous vendors (\$70,391), and has not paid some payroll taxes, withholdings, and unemployment taxes to the state and federal government (at least \$38,238). The proceeds from a loan were used to purchase a fire truck for the city; however, the city has not had an active Fire Department for several years (see MAR finding number 9). On June 30, 2008, approximately \$30,207 remained outstanding on the fire truck loan, and \$90,755 remained outstanding on the city's sewer loan. The city's total debt at June 30, 2008 (as described above), was at least \$229,000, whereas the cash balance was \$4,940. Also, various city officials loaned the city approximately \$8,700, which remains outstanding (see MAR finding number 12), and the city does not have sufficient funds to cover water deposits totaling approximately \$15,750 (see MAR finding number 8). The city has not paid sales taxes collected on the sale of water (see MAR finding number 3) and Crime Victim's Compensation and Peace Officer Standards and Training fees collected by the court (see Municipal Court Report No. 2009-33 *Thirty-Fourth Judicial Circuit, City of Hayti Heights Municipal Division*) to the state as required.

Because of the lack of accounting records and financial reporting, it is not clear whether the Board of Aldermen and Mayor are fully aware of the poor financial condition and outstanding debt of the city. Annual budgets and financial statements are not prepared, accounting records are not maintained, and controls are lacking (see MAR finding numbers 2 through 4). In addition, it is not evident that the board approves all disbursements of the city and some city purchases do not appear to be necessary or prudent uses of taxpayer monies (see MAR finding number 9).

The city does not maintain property or liability insurance (see MAR finding number 5). The lack of insurance would make it very difficult for the city to replace property damaged through an accident or disaster, especially given the financial condition of the city.

Given the concerns noted in this report, it is apparent that no one is adequately monitoring the city. The Board of Aldermen and Mayor need to request accurate monthly financial reports and insist that the recommendations in this report are implemented on a timely basis to ensure the city is operated professionally and competently.

The Board of Aldermen should review disbursements, reducing discretionary spending as much as possible. In addition, the board should continually monitor the financial condition of the city by reviewing budget to actual comparisons and financial statements on a timely basis.

WE RECOMMEND the Board of Aldermen review the financial condition of the city and consider various alternatives of reducing disbursements and/or increasing receipts. In addition, the board and Mayor should ensure the recommendations in this report are addressed and implemented on a timely basis.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The Audit Report states that the City has income of approximately \$208,000.00 from all sources and a payroll of \$160,000.00 a year, leaving only \$48,000.00 for all operations of the City. The audit also shows that the City has substantial outstanding debt of \$229,000.00 and only \$4,940.00 in cash. The City questions whether this amount includes long term government loans for the water and sewer systems through Rural Development, and if so, the balance accrued. The Audit does not reflect whether the amount stated includes only the 2007-2008 fiscal year or prior years of unpaid employee taxes and interest. A breakdown of these amounts would be most helpful to the City in the budget process and paying its obligations. It appears from the audit that the mayor secured personal loans from City officials of approximately \$8,700 to meet payroll for employees. The Board was unaware of the loans and did not authorize them. The Board has directed that the City will not borrow money for City operations. Any official who makes such loans on behalf of the City in the future will be subject to removal from office. Due to the lack of income, the City will be trying to locate an insurer to provide quotes for insurance, bonds and Workers Compensation.

The Board has been provided little information of the condition of the City prior to this audit and was not aware of the lack of adequate accounting and record keeping. It has insisted that neither the Mayor, Clerk or other official or employee obligate the City or issue any payment without prior board approval and providing detailed monthly financial reports.

The Audit has made the Board aware of the dire financial condition of the City and it is currently looking at means of reducing disbursements, including reductions in work force and discretionary spending. The only practicable means of increasing its receipts is by raising real estate taxes and water and sewer user fees. The City has discontinued its trash service and will be contracting that service out to a third party. It will collect for trash service and pay the service company each month. The funds collected will be placed in a separate account with the funds to be used solely for payments for trash pick-up.

AUDITOR'S COMMENT

The information requested in the auditee's response is presented in the following MAR findings as referenced in our comments above.

2. Budgets and Financial Reports

Budgets are not prepared and financial statements are not prepared, published, or submitted to the State Auditor's office as required by state law. In addition, the city has not obtained annual audits.

- A. The board did not approve a budget for the year ended June 30, 2008, and the Mayor indicated he did not think a budget had been approved for several years. Board meeting minutes indicate a budget was presented for 2008; however, the board indicated it needed to be revised. The Mayor indicated a revised budget was not prepared and presented to the board as requested. In addition, the original budget submitted could not be located. Section 67.010, RSMo, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year. Section 67.080, RSMo, provides that no expenditure of public monies shall be made unless authorized in the budget. The failure to prepare budgets has been a significant contributing factor to many of the city's financial problems. City officials are unable to compare budgeted to actual receipts and disbursements preventing them from taking necessary steps to address revenue shortfalls and deficit spending or readily determining the amount of funds available.

Sections 67.010 to 67.080, RSMo, set specific guidelines for the format, approval, and amendment of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations and provide a means to effectively monitor actual costs and revenues. It will also assist in setting tax levies and informing the public about the city's operations and current finances. A complete budget should include separate receipt and disbursement estimations by fund, beginning available resources, and reasonable estimates of ending available resources. The budget should also include a budget message and comparisons of actual receipts and disbursements for the two preceding years.

- B. The city has not published semi-annual financial statements as required by state law. The Mayor indicated the city has not published financial statements for several years. Section 79.160, RSMo, requires the Board of Aldermen to prepare and publish semi-annually a full and detailed account of the receipts, disbursements, and indebtedness of the city. Complete and accurate financial statements are necessary to keep the citizens informed of the financial activity and condition of the city. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statement is published.
- C. The city did not submit annual financial reports for the years ended June 30, 2001 through 2008, to the State Auditor's office as required by state law. Section 105.145, RSMo, requires political subdivisions to file an annual report of its financial transactions with the State Auditor's office.
- D. The city does not obtain annual audits as required by state law. Section 250.150, RSMo, requires the city to obtain an annual audit of its sewer system revenues and transactions. In addition, the city disbursed monies from 2003 through 2006, from two federal grants through the Missouri Department of Economic Development, Community Development Block Grant Program. Audits are required when grantees expend \$500,000 or more in federal funds in a year. The city has not responded to a request from the Missouri Department of Economic Development inquiring as to whether the city received in excess of \$500,000 in federal funds for the years ended June 30, 2004 and 2003. As a result, the city cannot receive additional grants through the Missouri Department of Economic Development until an audit or response indicating one was not required is received. City records are in such poor condition the city cannot determine the amount of federal monies spent in a year.

In addition to being required by state law, annual audits of city funds would help ensure financial transactions have been properly recorded.

WE RECOMMEND the Board of Aldermen:

- A. Prepare and adopt annual budgets as required by state law.
- B. Ensure semi-annual financial statements are published or posted in accordance with state law.
- C. Ensure annual financial reports are filed with the State Auditor's office.
- D. Ensure an annual financial audit of the city's sewer system is obtained in compliance with state law. In addition, the board should consider obtaining an annual financial audit of the city to ensure financial transactions are properly recorded and all grant requirements are met.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The Audit Report states that the City has not prepared and approved a budget for 2007 and 2008. The Audit states that though a proposed budget was presented in 2008, a copy of the budget could not be located. Alderwoman Barbara Johnson has a copy of the proposed 2008 Budget and a copy is attached. It shows the 2007 Operational Budget as \$248,410.75 and actual expenditures of \$271,695.69 resulting in a deficit of \$23,284.93 for the year. Missouri law does not permit deficit spending by the municipalities.

The Board is carefully reviewing its expenditures. It has questioned the payment of approximately \$600 a month for cell phones for City employees and will likely discontinue those services in an effort to trim its expenses. The Mayor's salary has been over \$17,000.00 for many years. It is likely the City will want to consider substantially reducing the salary to an amount in line with other cities of the same size. However, no salary change can become effective until the next mayoral election. The Mayor has appointed a Budget Committee which is preparing a statement of City income and expenses and will recommend cost savings to keep the City within its budget. The City Attorney has provided the Committee with a copy of "Financial Management for Small Missouri Municipalities Budgeting" to assist them to prepare and draft a budget recommendation. The City will also consider taking out and reducing the cost of insurance, including Worker Compensation.

Until recently the Board was not aware that the City was required to prepare and publish an annual financial statement and semi-annual statements. It will consider implementing your recommendations along with preparing audits required by the Community Development Block Grant (CDBG) programs. The only limitations on their efforts are the cost of accountants and its financial resources. The City understands that it will be ineligible for additional CDBG grants until an audit is provided or it is determined none is required. It may qualify for future grants and wants to comply with CDBG requirements to be eligible. It expects to work closely with the grant agencies to resolve the matters. The Board will attempt to implement all of the recommendations your office has made in this regard.

AUDITOR'S COMMENT

As previously noted, the proposed fiscal year 2008 budget could not be located during audit fieldwork and there was no evidence of board approval. The 2008 budget proposal provided to us with the response appeared to present 2007 actual receipts and disbursements; however, this was not clearly indicated. The proposed budget does not comply with the requirements of the state budget law. The budget does not include estimated amounts for 2008 or present cash balances and outstanding debt. In addition, the 2007 amounts combine all accounts and appear to be at least partially estimated since the same amounts are shown each month for some items.

3.**Accounting Controls and Procedures**

The city does not maintain accounting records. As a result, there is no assurance all monies collected were properly deposited or all disbursements were properly approved and for city business. In addition, given the current lack of records, there is no assurance monies were not misappropriated or misspent.

Sales tax charged for utilities is incorrect and is not paid to the Missouri Department of Revenue (DOR) as required. City officials and employees responsible for processing receipts and disbursements are not bonded. Accounting duties are not adequately segregated and records are not organized.

- A. The city does not maintain a general ledger system, disbursement record or listing, or a running cash balance. The city maintains a ledger for water billings which shows the amount billed and collected for each user by month; however, it does not include the amounts billed for refuse and sewer, is not totaled, and is not reconciled to deposits. For other types of receipts, the City Clerk indicated receipt slips are issued; however, they are not posted to any type of summary record or reconciled to deposits. For disbursements, the only records are bank statements which simply shows the check numbers and amounts. There are no records showing the vendor or a description for disbursements. As a result, the city has no accounting records indicating the amount of cash available at any time. The Mayor indicated that before writing checks, the city calls the bank to obtain the current cash balance available in the various accounts. This has led to several overdrafts resulting in service charges totaling \$4,475. In addition, as a result of the lack of records, bank reconciliations and summary financial statements cannot be prepared.

In addition, Section 150.250, RSMo, requires the city "to install and maintain proper books of records and accounts (entirely separate from all other records and accounts of the city, town or village or sewer district) in which correct entries shall be made of all dealings or transactions of or in relation to the properties, business and affairs of the sewerage system or of the combined waterworks and sewerage system. Such accounts shall show the amount of revenues received from the system, the application of such revenues and all financial transactions in connection therewith."

Receipt, disbursement, and cash information is necessary to prepare annual budgets and financial statements, perform monthly bank reconciliations, and support the city's accounting transactions. To adequately inform the board of all financial activity and to allow the board to monitor the financial condition of the city, monthly reports summarizing all city receipts, disbursements, and cash balances should be prepared and included with the monthly board minutes. Complete and accurate bank reconciliations are necessary to ensure accounting

records are in agreement with the bank, and errors or discrepancies are detected and corrected timely.

- B. The city has 18 bank accounts; however, 9 of the accounts are not utilized including the Replacement Account, Financial Loan Account, Bond Account, Fire Department Account, Municipal Development Account, Water Replacement Account, and 3 accounts with no names shown as "dormant" by the bank. At June 30, 2008, the bank balances in the unused accounts totaled \$1,510. The city should review and determine which accounts are necessary and consider eliminating and consolidating the unused bank accounts to save record keeping time.
- C. An incorrect rate is used to calculate and charge sales tax on water sales, and amounts collected were not paid to the DOR as required. Per the DOR, the city is authorized to charge and collect a 2.25 percent sales tax on utilities; however, the city assessed and collected sales tax at a rate of 6.975 percent. As a result, the city over-collected sales taxes of approximately \$1,290 for the year ended June 30, 2008 (based on the minimum residential bill per month and total customers). Additionally, the city has not reported and remitted sales taxes charged and collected to the DOR. An entity may have its sales tax license revoked for failure to remit sales tax collected from its customers to the DOR. The city should correct the sales tax rate charged on utilities and contact the DOR to discuss any additional corrective action needed.
- D. The city does not have bond coverage on officials or employees responsible for handling city assets. City Ordinance 21.540 requires the City Collector to be bonded in the amount of \$5,000 and City Ordinance 21.420 requires the City Clerk to record and maintain bonds for all city officers. Failure to properly bond all persons with access to assets exposes the city to an unnecessary risk of loss.

To reduce the risk of loss, the city should base its bond coverage on the monies an official or employee has access to at any one time, the cost of increased bond coverage, and the level of risk the Board of Aldermen is willing to assume.

- E. The City Clerk is responsible for all record keeping duties of the city, including duties which would normally be performed by a City Treasurer and City Collector. The city has not appointed a Treasurer or Collector to perform the duties of each respective office. The City Clerk's duties include billing and collecting for utility services and property taxes, monitoring delinquent utility and property tax accounts, receiving and depositing monies, maintaining payroll records, reviewing invoices, and preparing and distributing checks. No person independent of the cash custody and record-keeping functions provides adequate supervision or review of the work performed by the City Clerk.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth class city, the holding of the positions of City Clerk, City Treasurer, and City

Collector, or any two of these offices, by the same person at the same time would be incompatible. Holding two of these offices does not allow the separation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law. If segregating these offices is not possible, at a minimum, procedures for an adequate independent review should be established.

- F. City records are not well organized. Receipt books, checks, and other various documents are filed in several different locations in the office in no apparent order. Several records were missing or could not be located in a timely manner. Some invoices, city ordinances, sales tax returns, property tax information, federal payroll tax returns, leases, minutes, and grant agreements could not be located. Failure to maintain accurate, complete, and organized records provides less assurance that all monies are properly accounted for and increases the possibility that misuse of funds will go undetected. The Secretary of State's office provides guidelines on record retention. In addition, the Secretary of State Retention Manual indicates accounting records including adopted budgets, payroll tax filings, financial statements, general ledgers, and significant grant records should be retained 5 years.

WE RECOMMEND the Board of Aldermen:

- A. Ensure accounting records are maintained including a record of all receipts, disbursements, and cash balances; monthly financial statements are prepared for board review and approval and are filed with the board minutes; and monthly bank reconciliations are prepared and maintained for all city accounts.
- B. Consider eliminating and/or consolidating some of the city bank accounts.
- C. Ensure the correct amount of sales tax is charged and collected on utilities and distributed to the Department of Revenue, as required.
- D. Obtain adequate bond coverage for all persons handling city monies.
- E. Consider appointing separate individuals to the positions of City Clerk, City Collector, and City Treasurer. If this is not possible, at a minimum, procedures for an adequate independent review of the record keeping functions should be established.
- F. Ensure city records are maintained in an organized manner so relevant accounting documents can be located in a timely fashion and retained in compliance with guidelines.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The Board of Aldermen was unaware of the administrative accounting procedures of current and former city officials. Having reviewed the Audit findings, it agrees with the recommendations and will be implementing many of the recommendations.

4. Receipt Controls and Procedures

The city does not maintain proper records of receipts, and controls are lacking. As a result, there is no assurance all monies collected were properly handled, recorded, or deposited to the city's accounts. Monies collected are not deposited intact, the composition of receipt slips issued is not reconciled to deposits, and the numerical sequence of receipt slips is not accounted for properly. The city records different types of receipts in multiple receipt slip books creating confusion and inconsistency and blank receipt slips are not properly stored in a secure location.

- A. At least \$2,300 in monies received cannot be accounted for properly. Also, prenumbered receipt slips are not issued for some monies received. In addition, the city does not indicate which receipts are included in deposits, reconcile the composition of receipt slips issued to the composition of deposits, account for the numerical sequence of receipt slips, or deposit monies intact. The City Clerk indicated she withholds varying amounts from deposits in order to maintain cash on hand to make purchases and other cash payments. There is no accounting system established for these cash payments or to show board approval or review of these disbursements.

In May 2008, receipt slips issued exceeded amounts deposited by \$3,129. Vendor receipts totaling \$786 for cash purchase/payments were located for May 2008, leaving an unidentified difference of \$2,343. Due to the lack of records, we could not determine whether these monies were used for cash purchases or were missing. In addition, some checks/money orders deposited in May had not been receipted. Also, some receipt slips had not been posted to the utilities ledger and some amounts posted to the ledger did not agree to the amounts receipted.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, receipt slips should be issued for all monies received, the composition of receipts should be reconciled to the composition of deposits, and all monies should be deposited intact. Also, receipt slips should be reconciled to the utilities ledger. If a petty cash fund is considered necessary, it should be established by the board and maintained on an imprest basis.

- B. Seven different receipt slip books are used to record various types of receipts. In May 2008, some receipt slips were not issued in sequential order and some were

used to record cash purchases made by the city. In addition, water, sewer, and refuse receipts were recorded in several different receipt books and blank receipt books are not placed in a secure location. Multiple receipt books are cumbersome and reduce the assurance that all monies received are accurately recorded and accounted for properly. Blank receipt slip books should be stored in a secure location to prevent loss or misuse.

WE RECOMMEND the Board of Aldermen:

- A. Ensure monies are deposited intact. In addition, the board should require improved receipting procedures to adequately account for all monies received. Such procedures should include accounting for the numerical sequence of all receipt slips issued, including the method of payment on all receipts slips, and reconciling the composition of receipt slips to deposits. If a petty cash fund is considered necessary, it should be established by the board and maintained on an imprest basis.
- B. Consider reducing the number of receipt slip books used and store blank receipt slip books in a secure location.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The Board agrees with your recommendations and will require the Clerk to implement them immediately.

5. Capital Assets and Vehicle Usage
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The city has not established formal policies and procedures for capital assets, including procedures for an annual physical inventory. In addition, the city has no property or liability insurance and controls over the use of city owned vehicles are not adequate.

- A. The city does not maintain property records to account for the capital assets owned by the city and does not conduct physical inventories. Adequate capital asset records are necessary to provide better internal controls over city property and provide a basis for proper financial reporting.

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. The city should properly record all capital asset transactions and ensure the accuracy of the recorded capital assets. Periodically, the city should take physical counts of its assets and compare

to the detailed records. Accurate capital asset records are essential information needed to ensure all city assets are accounted for and insured against loss.

- B. The city has no insurance coverage for city owned buildings or other property items; nor do they have liability insurance. Without adequate insurance, losses of or damages to city owned assets and/or claims or judgments assessed could prohibit the city from being able to replace necessary buildings or equipment or making sufficient liability payments creating further financial strain. Failure to obtain property and liability insurance exposes the city, elected officials, employees, and taxpayers to losses incurred to city property or due to judgments.
- C. The city does not maintain mileage/usage or maintenance logs for vehicles and equipment owned by the city and used by the street, water, and police departments. As a result, fuel usage by vehicles cannot be reviewed for reasonableness and cannot be reconciled to billings received and paid. The city owns two police cars, a tractor, a garbage truck, and a fire truck. Additionally, the Police Chief uses a personally owned vehicle as a patrol car for the police department. The city currently pays for gasoline and maintenance costs for this vehicle (see MAR finding number 12). The total amount of fuel purchased could not be determined due to the poor records of the city; however, the city spent at least \$1,300 from January to June 2008.

Mileage/usage logs are necessary to document appropriate use of the vehicles and equipment and to support fuel charges. The mileage/usage and maintenance logs should include the purpose and destination of each trip, daily beginning and ending odometer readings (or hours of use for equipment), and operation and maintenance costs. These logs should be reviewed by the Board of Aldermen to ensure vehicles and equipment are used only for city business and are properly utilized, and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to fuel purchases and other maintenance costs.

WE RECOMMEND the Board of Aldermen:

- A. Ensure property records for capital assets are maintained that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.
- B. Ensure the city obtains insurance to protect all city owned assets from potential losses or liability judgments.
- C. Require complete and accurate mileage/usage and maintenance logs be maintained for all vehicles and heavy equipment. The logs should be reviewed by the board periodically for completeness and reasonableness. Information on the logs should be reconciled to fuel purchases and other maintenance costs.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The Board agrees with findings and will implement recommendation to extent financial condition will permit. The City has removed its chief of police and no longer pays him for gasoline and maintenance for his personal vehicle.

6. Maintenance of Streets, Water, and Sewer Systems
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Formal maintenance plans for the streets, as well as the water and sewer system, have not been prepared. Maintenance plans should be prepared in conjunction with the annual budget and include descriptions of the streets or systems 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 plans 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 city residents.

Formal maintenance plans would serve as a useful management tool and provide greater input into the overall budgeting process. Plans provide a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of the city's infrastructure throughout the year.

WE RECOMMEND the Board of Aldermen prepare formal maintenance plans for the streets and the water and sewer system at the beginning of the year and periodically update the plans throughout the year. In addition, the board should review the progress made in the repair and maintenance of the city's infrastructure to make appropriate decisions on future projects.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The Board agrees that formal maintenance plans for street, water, and sewer systems should be made and reviewed on an annual basis. Such plans will further assist the City as it prepares its annual budget and assure that funds are properly restricted to the projects intended. It will adopt your recommendations.

7. Property Tax Collections

The city does not maintain property tax books, and reports are not prepared summarizing the amount of property taxes collected as well as those that remain delinquent. As a result, there is no assurance all property taxes are properly handled, recorded, and

deposited into the city treasury. Public hearings are not held to discuss tax rates and rates are not set by ordinance. In addition, the tax rates levied are less than the maximum amount, preventing the city from maximizing revenues.

A. The following concerns regarding property taxes were noted:

- 1) The City Clerk did not prepare a tax book for the 2007 tax year. The City Clerk used the assessed valuation information obtained from the Pemiscot County Assessor and extended the taxes directly to tax bills prepared for each property holder. Tax bills, additions, abatements, and payments received are not documented in one place to allow the city to readily determine which taxes have been paid. As a result, there is no assurance all property owners and correct amounts have been billed and collected. Additionally, the City Clerk cannot prepare delinquent tax books; therefore, allowing businesses and residents that have not remitted their taxes to go undetected.

Section 94.130, RSMo, requires the City Clerk to prepare the tax book and charge the City Collector with the amount to be collected. Failure to monitor property taxes for unpaid amounts could result in loss of revenue for the city.

- 2) A detailed annual report of property taxes is not prepared and presented to the Board of Aldermen. Section 79.310, RSMo, requires the City Collector to make a detailed report to the Board of Aldermen, stating the monies collected during the year, the amounts uncollected, and the names of the persons from which amounts are uncollected. A detailed annual report, which complies with state law, classified by type of tax would provide greater assurance taxes have been properly collected, written off, or determined to be delinquent. Such a report should summarize all taxes charged to the City Collector, monthly collections, delinquent credits, abatements and additions, and protested amounts. An annual report, examined by the Board of Aldermen, would help detect any errors or irregularities that might occur.
- 3) An account book to record property tax charges, collections, and remaining delinquent taxes is not maintained. 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, and balances uncollected, can be useful in preparing the annual report required by state law.

- 4) A list of delinquent taxes is not prepared and turned over to and approved by the Board of Aldermen. Section 94.320, RSMo, provides the Board of Aldermen shall require the City Collector, at the first meeting of the board in April each year, to prepare lists of delinquent taxes. The Board of Aldermen shall examine and approve the lists and charge the City Collector with the lists to collect the taxes due.
- B. The Board of Aldermen did not hold public hearings prior to establishing property tax rates or establish annual tax rates by ordinance. In addition, the city did not levy the maximum approved tax rates for the 2007 tax year preventing the city from maximizing revenues. The city levied a tax rate of 94 cents per \$100 assessed valuation compared to the approved rate of 96 cents (76 cents general plus 20 cents health) per \$100 assessed valuation.

Section 67.110, RSMo, states at least one public hearing is to be held on proposed rates of tax prior to the board's approval of the rates, and Section 94.210, RSMo, requires tax rates to be established by ordinance. The board should review and levy the approved tax rates to ensure tax revenues are maximized.

WE RECOMMEND the Board of Aldermen:

- A.1. Require the City Clerk to prepare tax books and charge the City Collector with the amount to be collected.
 2. Require the City Collector to prepare a detailed annual report as required by state law. The Board of Aldermen should examine the report for propriety and accuracy.
 3. Require the City Clerk to maintain an account book.
 4. Require the City Collector to submit a list of all taxes remaining due and uncollected at the first meeting of the board in April for board approval.
- B. Ensure public hearings are held on proposed property tax rates, annual levies are established by ordinance, and the approved tax rates are levied to maximize revenues.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The Board was unaware of the tax setting and collection process. It believes that your recommendations are essential to the sound administration of the City's finances. It will discuss the recommendations with the Clerk and City Collector and require them to implement the recommendations. It will also require regular reports be made to the Board to enable it to monitor and enforce tax collection.

The city has not established a separate accounting for motor vehicle receipts, capital improvement sales tax monies, local law enforcement training fees, health property tax receipts, and water, sewer and refuse receipts, and does not maintain proper documentation to support transfers between funds. Also, water, sewer, and refuse receipts are deposited haphazardly into various checking accounts allowing restricted monies to be commingled and used for general operations of the city. The city does not maintain adequate records for water deposits or allocate disbursements and salaries between various funds. In addition, the city has not conducted a recent formal cost study to ensure rates charged for water, sewer, and refuse services are adequate.

A. The following concerns relating to restricted revenues were noted:

- 1) Capital improvement sales tax monies are not accounted for properly. In October 1992, city voters passed a ½ cent capital improvement sales tax to be used for the purpose of funding, operating, and maintaining capital improvements. During the year ended June 30, 2008, sales tax receipts totaling approximately \$2,070 were deposited in the city's General Account. Disbursements specifically for capital improvement projects are not identified in the city's records.

Section 94.577, RSMo, states that all capital improvement sales tax receipts shall be deposited in a special trust fund and used solely for capital improvements. In addition, separate records of receipts and disbursements would help inform the city residents of the specific projects funded by the sales tax.

- 2) Motor vehicle-related receipts are not accounted for properly. During the year ended June 30, 2008, the city received motor vehicle-related receipts totaling approximately \$30,900 from the state. The city maintains a separate bank account for the deposit of these funds; however, the city transferred \$15,555 from this account to the city's Payroll Account (see part D below). As a result, monies legally restricted for street purposes may have been used for general operations of the city. Article IV, Section 30, of the Missouri Constitution, requires that motor vehicle-related receipts apportioned by the state of Missouri be expended only for street-related purposes.

To ensure compliance with the Missouri Constitution, the city should maintain a separate accounting of motor vehicle-related receipts and ensure these monies are used only for the purposes allowed by the constitution.

- 3) The city has not established a separate fund or separate accounting to ensure law enforcement training receipts are expended only for the purpose of local law enforcement training. Due to the city's lack of records, the amount of law enforcement training fees received and spent could not be determined.

Section 488.5336, RSMo, requires law enforcement training fees to be used only for the training of law enforcement officers. The city should transfer law enforcement training fees collected to a separate fund or maintain a separate accounting of these monies to ensure these fees are used in accordance with state law.

- 4) The city levied approximately \$2,000 in health property taxes during each of the years ended June 30, 2008 and 2007. While it appears this special purpose tax has been levied by the city for a number of years, the city could not locate a copy of the original ballot or an ordinance or formal policy defining the allowable uses of these monies. Due to the lack of records, the actual amount of health receipts received and spent could not be determined.

The monies generated by this tax have been used by the city for expenditures unrelated to public health. These monies have been collected and deposited into various accounts and used to fund general city operations. Section 94.260, RSMo, allows the city to establish a property tax for public health. While it is unclear what restrictions were placed on the original ballot, it appears the monies received from this property tax would be restricted for public health expenses only.

The city should develop a policy regarding the type of allowable expenses to be paid from this tax and ensure the policy is in compliance with state law. The city should transfer health tax receipts collected to a separate fund or maintain a separate accounting of these monies to ensure these fees are used for the purpose levied.

- B. The city does not maintain adequate records of water deposits collected from customers. The city charges and collects a \$75 deposit from each water customer before establishing water service. Deposits for water service are refunded after water service is terminated by the customer and the balance due has been paid in full. The City Clerk indicated deposits received are noted in the utility ledger; however, a comprehensive list of each customer showing the receipt slip number, amount, and date for amounts received, and the check number and date of all refunds of deposits is not maintained. The city has approximately 210 customers, thus approximately \$15,750 should be maintained in the Water Account to provide sufficient monies for refunds. The current balance in the Water Account is \$418.

To ensure the city is properly holding water deposits from customers, an accurate list of water deposits held by the city should be prepared, which includes the deposit amount and date received from each customer and the dates and amounts of all deposit refunds. In addition, a separate accounting of the water deposits should be established to document the total amount held by the city. The water deposit report should be reconciled monthly to the balance held, and a supervisory review of the reconciliation should be documented to ensure records are in balance and all deposits are accounted for properly.

C. The city charges and collects fees for water, sewer, and refuse services provided to residents and businesses in the city. Monies collected are to be used to fund the cost of providing the services, and maintenance and improvements to the systems. The following concerns related to water, sewer, and refuse receipts and disbursements were noted:

- 1) Restricted monies collected for water, sewer, and refuse services are used to fund city operations. Although the city has established separate bank accounts for each service, receipts are deposited haphazardly into various accounts with no accounting for how much was actually collected for each type of fee.
- 2) The city does not calculate and allocate administrative salaries or disbursements to the various accounts. The city should consider allocating administration salaries based on the number of hours related to water, sewer, and refuse services, or other activities, and disbursements should be allocated based on usage. City personnel indicated bills are paid and monies are transferred to the Payroll Account from whichever account has monies.
- 3) The city recently considered raising utility rates; however, no current formal study has been performed of the adequacy of the water, sewer, and refuse rates. Information necessary to properly conduct the study is not readily available, due to the city's inadequate record keeping. Water, sewer, and refuse fees are user charges which should be sufficient to cover the cost of providing the related services, without generating profits to subsidize other city services.

The city should perform a detailed review of its water, sewer, and refuse costs, including depreciation and debt service costs, and set rates to cover the total costs of operation. In addition, the city should document its justification for setting the rates for utilities.

Proper allocation of receipts and expenses (including payroll) is necessary for the city to ensure water, sewer, and refuse rates are sufficient to cover the cost of providing the respective service without generating profits to subsidize other city services. Documentation and proper allocation of expenses based upon actual

hours worked is useful for both management and compliance purposes. Additionally, reflecting receipts and disbursements in the proper fund is necessary to accurately determine the results of operations of specific activities, thus, enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs.

D. During the year ended June 30, 2008, the city transferred monies from various bank accounts including restricted funds (water, sewer, refuse, and road and street) to the Payroll Account. At least the following amounts were transferred:

<u>Transferred From</u>	<u>Amount</u>
Refuse Account	\$ 3,700
Water Account	13,533
Road and Street Account	15,555
Local Law Enforcement Grant Account	11,100
Sewer Account	<u>5,400</u>
Total	<u>\$ 49,278</u>

Amounts were transferred by telephone and by issuing checks; however, due to the lack of records, the total transferred could not be determined. There was no documentation to support the amounts transferred from these accounts or to indicate the board approved the transfers. As noted above, the City Clerk indicated the city transfers monies from whatever account has a balance in order to meet payroll.

Revenues of restricted funds such as the Refuse, Water, Road and Street, Local Law Enforcement Grant, and Sewer Accounts represent restricted monies that should only be used for the operation of that fund and should not be used to subsidize the general operations of the city.

WE RECOMMEND the Board of Aldermen:

- A. Establish separate funds or a separate accounting of restricted receipts and disbursements for capital improvement sales tax, motor vehicle-related, law enforcement training, and health property tax monies to ensure they are used solely for allowable purposes and to inform the voters of the use of these restricted funds.
- B. Establish and maintain a detailed comprehensive record of all deposits and refund transactions for water services. In addition, the board should ensure sufficient water funds are available to cover deposit liabilities.
- C.1. Ensure receipts and disbursements are allocated to the appropriate fund and not used to fund general city operations.

2. Ensure the allocation of administrative salaries is based on the number of hours related to streets, water, sewer, refuse, or other activities.
 3. Periodically perform a review of water, sewer, and refuse rates to ensure revenues are sufficient to cover all costs of providing these services. In addition, the board should retain documentation to support justification for changes made to utility rates and cease using utility monies to fund general city operations.
- D. Ensure restricted funds are used for their intended purposes. In addition, the board should ensure transfers to and from various funds are properly tracked and documented.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The Board agrees with your recommendations and has begun a process for implementing them.

9. Disbursement Controls and Procedures
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Controls and procedures over city disbursements are in need of significant improvement. As a result, there is no assurance all disbursements were properly handled, recorded, approved, or used for city business. The board does not approve disbursements prior to payment of invoices, and adequate documentation is not retained for some disbursements. Blank checks are signed in advance and some purchases do not appear reasonable. The city reimburses the Mayor for gasoline expense for his personal vehicle without requiring the Mayor to account for city-related travel expenses.

- A. The Board of Aldermen does not document its review and approval of city disbursements. Disbursements made from city funds should be reviewed and approved by the Board of Aldermen before payment is made to ensure all disbursements represent valid operating costs of the city. In addition, to adequately document the board's review and approval of all disbursements, a complete and detailed listing of checks written should be prepared, the numerical sequence accounted for, signed or initialed by the board members to denote their approval and review of invoices, and retained with the official minutes.
- B. Adequate supporting documentation was not available for several disbursements. We noted 13 of 30 disbursements reviewed, totaling approximately \$7,120, for which detailed documentation was not retained. Examples include payments of \$1,916 for boarding of prisoners, \$250 for water treatment chemicals, \$328 for copier repair, and \$350 for furnace repair. In addition, billing statements and invoices are not checked for accuracy and canceled upon payment. All disbursements should be supported by a vendor invoice to ensure the obligation

was actually incurred and the disbursement represents an appropriate use of public funds.

- C. Blank checks are signed in advance by the Mayor and then processed by the City Clerk. Although a second signature is required on the checks, signing in advance negates the additional control of requiring two signatures.

To prevent misuse of city funds, checks should not be signed prior to processing and final approval.

- D. Several disbursements reviewed did not appear to be prudent and necessary uses of public funds.

- The city spent \$125 for a Holiday Greeting on the radio in December 2007.
- The city pays \$385 per month to the US Department of Agriculture Rural Development for the lease purchase of a fire truck with an outstanding balance of \$30,207 as of June 30, 2008. The city has not had an active fire department since 2005.
- The city currently pays \$2,078 annually to a company to clean two employees' uniforms. While cleaning employee uniforms may be a legitimate use of city monies, the total paid appears excessive.

Public funds should be spent only on items which are necessary and beneficial to the city. City residents have placed a fiduciary trust in their public officials to spend city revenues in a prudent and necessary manner. The city should consider selling the fire truck to pay off the loan if the city is not providing fire protection to its citizens.

- E. During the year ended June 30, 2008, approximately \$2,310 in disbursements were identified as reimbursements to the Mayor for gasoline purchased for his personal vehicle; however, due to the poor disbursement records, additional monies could have also been reimbursed. The Mayor was not required to report mileage or actual vehicle expenses incurred for city business; therefore, the city has no assurance the Mayor's gasoline expenses were entirely incurred for city business.

The city should require the Mayor to report all city-related expenses incurred on his personal vehicle to ensure all gasoline charges are reasonable, or consider reimbursing the Mayor for actual mileage incurred and discontinue paying for gasoline. In addition, the gasoline payments appear to be taxable compensation to the Mayor but are not reported on his W-2 forms as required by Internal Revenue Service (IRS) regulations.

- F. The city failed to pay numerous invoices timely resulting in a significant increase in current liabilities. Per vendor invoices and discussion with various entities, the city owed the following amounts as of June 30, 2008:

<u>Description</u>	<u>Amount</u>
Water treatment	\$ 30,874
Board bills	10,000
Electric services	8,206
Food supplies	7,272
Fire responses	4,710
Transfer station	2,740
Capital lease purchase police car and garbage truck	2,750
Summer Food Program excess funds	2,516
Auto and tractor supplies	724
Water meters and supplies	480
Welding	119
Total	<u>\$ 70,391</u>

Procedures should be in place to ensure bills are paid timely to avoid late charges and interest.

WE RECOMMEND the Board of Aldermen:

- A. Review and approve all disbursements of city funds prior to the disbursements being made.
- B. Require adequate supporting documentation prior to approving disbursements for payment. Additionally, the board should ensure all supporting documentation is retained.
- C. Ensure checks are signed only after they have been processed and approved.
- D. Ensure all disbursements are necessary and prudent uses of public funds.
- E. Require the Mayor to report all city-related expenses incurred on his personal vehicle to ensure all gasoline charges are reasonable or report the reimbursements to the IRS as required. The board should consider reimbursing the Mayor for actual mileage incurred and discontinue paying for gasoline.
- F. Implement procedures to ensure bills are paid timely.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The Board agrees with your recommendations and has begun a process for implementing them.

10.	Payroll
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Adequate documentation and complete personnel files are not maintained for each employee. Time sheets are not required for some employees and records are not maintained of vacation, sick leave, and compensatory time earned, taken, or accumulated for each employee. Additionally, the compensation for board members and employees is not set by ordinance and employees appear to be paid for hours worked while at lunch. The city does not have adequate procedures to ensure payroll expenses and withholdings are properly computed, reported, and disbursed.

- A. Complete personnel files are not maintained by the city for each employee. Employee withholding forms (W-4s) are not on file for some employees and documentation of the employees' approved salaries and any adjustments (e.g. starting salary and approved raises) is not in individual personnel files.

The IRS requires employers to ensure an IRS Form W-4 is completed by each employee to support withholdings and taxes. In addition, personnel files should be maintained for each employee to provide documentation of personnel actions 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.

- B. The city has not established ordinances for the compensation paid to city officials and employees or the duties and terms of officials.

Section 79.270, RSMo, provides that city officials and employees salaries be set by ordinance and Section 79.320, RSMo, requires the City Clerk's duties and term of office be established by ordinance. Establishing ordinances to set compensation rates and terms of office, in addition to meeting statutory requirements, documents the approved amounts to be paid and eliminates misunderstandings regarding the amount of pay each city official and employee receives. Also, Section 70.270, RSMo, provides that "...the salary of an officer shall not be changed during the time for which he was elected or appointed." Thus, the term of office is significant in determining when pay increases are allowable under state law.

- C. Salaried employees and the Court Clerk do not submit time sheets, and records are not maintained of vacation, sick leave, and compensatory time earned, taken, or accumulated for each employee. In addition, employees are paid for hours

worked while at lunch. Timesheets are necessary to document hours actually worked, substantiate payroll disbursements and the allocation of payroll costs to the various funds, and provide the board with a method to monitor hours worked. The city should require all employees to submit detailed time sheets which are reviewed and approved by a supervisor and only compensate employees for time worked. Documentation of vacation and sick leave earned, taken, and accumulated is necessary to ensure employees are properly compensated for accumulated leave and to ensure leave time used is not in excess of time accumulated.

- D. The city does not appropriately file and disburse required payroll taxes and withholdings, and payroll registers were not complete. The city did not file required reports or submit payroll taxes and withholdings to the appropriate entities for several quarters. A review of the city's payroll records noted Federal 941 returns were not prepared or filed for the third and fourth quarters of 2007 and the first and second quarters of 2008. Although the city prepared returns for the first and second quarters of 2007, documentation of payments could not be located. Based on information prepared for the first and second quarters of 2007, the city has a potential liability of approximately \$34,800 to the IRS for these filing periods.

In addition, the city has not filed state withholding returns for the third and fourth quarters of 2007 and the first and second quarters of 2008. Due to the city's poor records, the amount due to the DOR could not be determined. In addition, the Missouri Department of Labor and Industrial Relations indicated the city owes \$3,438 for state unemployment for the first, second, and third quarters of 2006 and the first quarter of 2007. Returns for the remaining three quarters of 2007 and the first and second quarters of 2008 could not be located.

City payroll registers were missing all payroll information for the fourth quarter of 2007 and the entire month of May for the second quarter of 2008. In addition, some mathematical errors were noted on employee pay stubs including using a slightly higher percentage than required for the determination of federal Social Security and Medicare taxes.

Adequate payroll registers and calculations of payroll taxes are needed to file accurate payroll reports, and retention of payroll documentation is required to support payroll tax computations and to show compliance with applicable federal and state laws and regulations. The city should review its records and contact the IRS and the state to ensure all applicable payroll tax reports and withholdings have been filed and disbursed. Failure to properly withhold, report, and submit payroll taxes could result in fines and penalties levied against the city.

- E. On June 2, 2008, the City Clerk received a \$300 payroll advance from the city; however, there was no documentation regarding the pay back terms or board approval. The City Clerk paid back the advance by the end of July 2008;

however, a review of the payback total indicated an overpayment of \$50. Due to the inadequate payroll records, it could not be determined whether additional payroll advances had been made.

Salary advances represent loans and grants of public funds, and as such, are prohibited by the Missouri Constitution. Article VI, Sections 23 and 25 of the Missouri Constitution, prohibit the loaning or granting of public funds to individuals. The city should cease the practice of making payroll advances to employees.

- F. A comparison of the salaries of the Mayor, Board of Aldermen, and Police Chief to other cities with similar population sizes was performed using compensation information obtained from the Missouri Municipal League. The information indicates each board member's compensation of \$60 for each monthly meeting and the Police Chief's annual salary of \$23,040 appear to be in line with other fourth class cities with similar populations. However, the Mayor's salary revealed a significant variance when compared to other cities. The Mayor of Hayti Heights receives yearly compensation of \$17,093 while compensation paid by cities of similar size ranged from \$300 to \$4,800 per year.

The city's payroll represents a significant portion of the city's disbursements for the year. The city is forced to transfer monies from restricted funds each pay period in order to cover payroll liabilities (see MAR finding number 8). Salaries of elected officials should be reviewed periodically to ensure compensation rates are set at levels that are reasonable and fiscally sound.

WE RECOMMEND the Board of Aldermen:

- A. Ensure all individuals receiving wages from the city have a properly completed W-4 form on file. Additionally, complete personnel files should be maintained for all city employees which include authorization for the employee's hiring, the initial pay rate, subsequent increases in pay, and any other personnel actions.
- B. Establish the compensation, duties, and terms of offices for all city officials and employees by ordinance.
- C. Require all city employees to prepare time sheets reflecting the actual time worked and signed by the employee and the applicable supervisor. The board should ensure employees are paid for actual hours worked which does not include time off for lunch. In addition, records should be maintained of vacation, sick leave, and compensatory time earned, taken, and accumulated balances.
- D. Ensure all payroll taxes are properly computed and disbursed, all federal and state payroll tax forms are prepared and filed on a timely basis, and complete payroll registers are maintained. Copies of all forms and computations should be maintained. The city should contact the IRS and the state to ensure all prior

payroll taxes have been properly submitted and all payroll reports have been filed accurately and timely, and file amended returns as necessary.

- E. Cease allowing payroll advances.
- F. Review the Mayor's current salary structure to ensure it is in line with cities of similar size.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The Board agrees with your recommendations and has begun a process for implementing them.

11. Meeting Minutes and Ordinances

Numerous problems were noted with city procedures for establishing and maintaining ordinance records, providing public access to records, and conducting and documenting board meetings.

- A. Improvement is needed in the organization of the city's ordinances.
 - 1) A complete orderly set of ordinances is not maintained, and ordinances are not properly updated. Several ordinances are missing from the official ordinance book including subchapter "A" (Aldermen) and subchapter "B" (Officers and employees) under city organization. Although the City Clerk was able to locate the missing ordinances, the city's ordinance book is not labeled and organized. In addition, city ordinance 63.130, which establishes water rates and deposits is not current. The ordinance establishes water rates at \$2.50 for the first 3,000 gallons of water and 10 cents for each additional 100 gallons and requires a \$10 deposit from each customer; however, the city currently charges \$11 for the first 2,000 gallons and 31 cents for each additional 100 gallons and requires a \$75 deposit.
 - 2) An index of all ordinances passed and rescinded by the city is not maintained which makes it difficult for the city to determine which ordinances are still active. In addition, the city has not adopted ordinances to address all issues required by state law, including current compensation of some officials and employees, establishment of the approved property tax levy for the year, and the procedures for collecting delinquent taxes.

Since ordinances represent legislation which has been passed by the Board of Aldermen to govern the city and its residents, it is important that city ordinances be maintained in a complete and up to date manner. An index of all ordinances

passed and rescinded by the city could help keep track of additions and changes made to the city ordinances. In addition, a complete set of original signed ordinances should be maintained at city hall.

- B. A tentative agenda was not prepared and posted for all meetings. The City Clerk indicated agendas are not posted with the notice of the meeting, but are presented by the Mayor at the beginning of the meeting. Section 610.020, RSMo, requires public entities to give notice of the time, date, and place of each meeting, and its tentative agenda, to advise the public of the matters to be considered. The notice shall be given at least 24 hours prior to the meeting.
- C. Board meeting minutes are not signed by the City Clerk and Mayor. In addition, minutes for several months could not be located. The board meeting minutes should be consistently signed by the City Clerk as the preparer, and the Mayor or a designated member of the board to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings. The minutes represent the official record of discussions held and actions taken at the meetings of the Board of Aldermen. The Secretary of State retention manual indicates that meeting records by public bodies including minutes, agendas, etc. are to be retained as permanent records.
- D. The city has not adopted a policy regarding public access to city records. The City Clerk indicated the city charges 10 cents per copy. Although the city follows the Sunshine Law for fees charged for copying public records, the city has not formally adopted a policy. A formal policy regarding access and obtaining copies of city records would establish guidelines for the city to make the records available to the public. This policy should establish a contact person, an address for mailing such requests, and a cost for providing copies of public records.

Section 610.026, RSMo, describes the allowable fees for copying public records, and Section 610.023, RSMo, lists requirements of making city records available to the public. In addition, the ordinance and policy should establish a person to contact and an address to mail requests for access to records.

- E. Improvement is needed in the handling of closed meetings. Numerous closed sessions were held by the board, but the various requirements in Chapter 610, RSMo (the Sunshine Law), regarding closed meetings were not always followed.
 - Some minutes of open meetings do not document the reasons for closing the meeting or the related vote.
 - While minutes of closed meetings are required by state law, the city failed to provide minutes of several closed meetings held by the board.

- Decisions made in closed meetings were not always properly disclosed in open meetings, or due to the lack of closed session minutes, it is not known whether any decision was properly disclosed.

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

WE RECOMMEND the Board of Aldermen and Mayor:

- A.1. Update the city's ordinances for any resolutions passed and ensure a complete set of ordinances is maintained.
2. Ensure all ordinances required by state law are adopted and consider establishing an index of all city ordinances passed and rescinded.
- B. Ensure proper notification and agendas for public meetings are given or reasons for any deviation are documented in the minutes in accordance with applicable statutes.
- C. Ensure all minutes are signed by the Mayor and City Clerk and retained per the Secretary of State retention guidelines.
- D. Establish written policies and procedures regarding public access to and/or copies of city records.
- E. Ensure minutes are maintained to support all closed meetings, document the vote to go into closed session, state the reasons for going into closed meetings, and publicly disclose the final disposition of applicable matters discussed in closed meetings.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The City retained a new City Attorney in January. One of the first things he did was to make the Board familiar with the open Sunshine Law. The City has since been preparing meeting agendas, including notice of closed session, posting them at least 24 hours in advance, and signing of Board minutes once approved. The City is in the process of adopting the remainder of your recommendations.

The city failed to adequately document and approve loans received from various elected officials and to monitor the payback of some of the loans. In addition, it appears these loans violate the Missouri Constitution.

A. Adequate written agreements were not obtained for the following loans and board approval was not documented:

- 1) The Mayor indicated he loaned the city \$5,000 on April 11, 2008, from his personal monies to pay back the amount of grant funds misspent by the city (see MAR finding number 13). There is no written agreement documenting payback terms between the city and the Mayor for this loan and the only documentation of this loan was a copy of the Mayor's cancelled check. In addition, there is no documentation of board approval. The City Clerk indicated this loan had not been repaid as of November 25, 2008.
- 2) The Police Chief currently does not pay for his water and sewer services. The Mayor indicated the Police Chief does not pay for these services in order to repay the Police Chief for a loan he made to the city. The amount of water and sewer services credited to the Police Chief from July 2007 through June 2008 is approximately \$955. There is no written agreement between the city and the Police Chief indicating the date, amount, or payback terms for the loan. In addition, the city failed to track the amount and length of time the Police Chief has not been billed for water and sewer services or the amount still due to the Police Chief. Also, there is no documentation of the original amount loaned to the city by the Police Chief, when this loan occurred, or when the Police Chief stopped paying for his water and sewer services.
- 3) Two additional loans to the city made by the Police Chief and a former alderman for \$1,700 and \$500, respectively, were noted for which there were no formal agreements. Another loan from several elected officials totaling \$1,500 made to the city was documented; however, the agreement was not dated and signed by the parties and no payback terms were indicated.

B. The Police Chief personally purchased a 1996 Chevrolet Caprice in May 2003, which is currently used by the police department as a patrol car. The car is registered and licensed to the Police Chief and is equipped with a police radio and emergency lights and siren. The Mayor and Police Chief indicated the city agreed to purchase the vehicle from the Police Chief for \$4,000 in 2003; however, this transaction did not take place. The Mayor indicated no formal document pertaining to this agreement was made. Currently, the city pays for the gas and

maintenance of this vehicle, but the Chief purchases the insurance and retains the title.

Good business practices require proper documentation and approval of all loan transactions the city enters into as essential to allow the city to track its liabilities and indebtedness to all parties. Failure to obtain proper documentation and payback terms increases the city's risk and exposure to legal disputes that may arise. The city should review all loans to determine the original amount, payments made, and current amounts outstanding.

In addition, Article VI, Section 26a, Missouri Constitution, states that no city shall become indebted in an amount exceeding in any year the revenues provided for such year plus any unencumbered balances from previous years, except as otherwise provided in the constitution. Due to the poor financial condition of the city, as noted in MAR finding number 1, it appears even these small loans may exceed these limits.

WE RECOMMEND the Board of Aldermen review all loans the city has entered into with officials and individuals, and amounts repaid, to determine the total debt the city has encumbered. Additionally, the board should cease the practice of accepting loans from city officials. If additional loans are deemed necessary, the board should adopt a policy regarding the documentation and approval of these loans to ensure compliance with the constitution.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The Board has been advised that the Missouri Constitution does not allow deficit spending by municipalities. You are correct that the City may not expend or obligate itself to pay more than the income for the year plus any unencumbered balances from previous years. The loans by city official were not approved by the Board or documented. It is the understanding of the Board from your audit that the Mayor loaned \$5,000 to the City on April 11, 2008 to partially repay approximately \$7,834 misspent by the City under the Local Law Enforcement Block Grant. The audit indicates the grant money was misapplied to pay other city operating expenses. There is no indication that the \$5,000 was placed in a separate account or its use thereafter restricted to its intended purposes. No repayment of any loans should be made until the Board has fully reviewed the circumstance and determined whether the City is legally obligated to repay the loans. Any loans made by city officials without formal approval of the Board are not binding on the City, and especially so if they violate the Missouri Constitution. The Board is adopting your recommendation to identify and review each loan, determine who obtained the loan, whether the Board or prior Boards approved the loans, and track the receipt and disbursement of the funds. The Board has already begun implementing a policy requiring any contracts or loans be reviewed by the City Attorney and approved by the Board before being made. Any such loans will be required to be in writing and contain all payment information.

The city used Local Law Enforcement Block Grant monies to fund general city operations. The city received a Local Law Enforcement Block grant of \$7,834 through the Missouri Department of Public Safety (DPS) which was deposited into the Local Law Enforcement Project Account on February 13, 2008. As of June 30, 2008, the balance in the Local Law Enforcement Project Account was \$264, indicating the city has used \$7,570 of the grant funds for general city operations. The Mayor, City Clerk, and Police Chief indicated that none of the grant funds were spent for the intended purpose.

The city received a letter from the DPS stating the grant expired June 30, 2008. The DPS requested documentation of purchases and payments made and that any unexpended funds be returned. Funds received through approved grants are restricted monies that are to be used within a specified time period and expended only for approved purchases. Failure to comply may result in denial of future funding.

WE RECOMMEND the Board of Aldermen ensure grant monies are used only for the intended purposes in a timely manner. In addition, the city should contact the granting agency to determine how to resolve this situation.

AUDITEE'S RESPONSE

The Board of Aldermen and City Attorney provided the following written response:

The members of the Board of Aldermen were unaware of the receipt of Local law Enforcement Block Grants or how they were spent. No bills were presented to the Board of Aldermen for approval before they were paid. It appears the city officials apparently wrote checks and used the grants to pay routine operating expenses of the City rather than spending them for their intended purposes. Since the Mayor and the Clerk did not provide proper monthly financial reports or obtain Board approval for the expenditures, the Board was unaware that the grant fund had been misused. The Board of Aldermen has taken a more active role in demanding regular financial reports to ensure that grant monies are used only for their intended purposes. The City Clerk is providing the City Attorney copies of correspondence from the Department of Public Safety to determine how to resolve the matter.

AUDITEE'S OVERALL RESPONSE

The Board of Aldermen believes the audit provided by your office to be a valuable management resource and tool which will help them put the City on a sound financial basis by adopting proper procedures and controls for collection and expenditures of City funds. In doing so the Board is optimistic that it can become current in its obligations and avoid the problems you have identified in the future. The Board appreciates the time and work your office has taken in performing the audit.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF HAYTI HEIGHTS
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Hayti Heights is located in Pemiscot County. The city was incorporated in 1972 and is currently a fourth class city. The population of the city in 2000 was 771.

The city government consists of a mayor and six-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 4-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, 2008, are identified below. The Mayor is paid \$17,093 annually and Board of Aldermen members are paid \$60 for regular monthly meetings and \$15 for each special meeting attended. The Police Chief is elected for a 4-year term and paid \$1,920 monthly. The compensation of these officials has not been established by ordinance.

Mayor and Board of Aldermen	Dates of Service During the Year Ended June 30, 2008
Laurence Newman, Mayor	July 2007 – June 2008
Gregory Williams, Alderman	July 2007 – June 2008
Barbra Johnson, Alderwoman (1)	November 2007 – June 2008
Ethel White, Alderwoman (1)	July 2007 – October 2007
Linda McBride, Alderwoman (2)	February 2008 – June 2008
Earnmor Burns, Alderwoman (2)	July 2007 – February 2008
James Willie Thomas, Alderman	July 2007 – June 2008
Martha Johnson, Alderwoman	July 2007 – June 2008
Darion Thomas, Alderman (3)	July 2007 – March 2008

Other Officials	Dates of Service During the Year Ended June 30, 2008
Vernis Farmer, Police Chief *	July 2007 – June 2008
Deborah Borders, City Clerk (4)	December 2007 – June 2008
Henrietta Stokes, City Clerk (4)	July 2007 – December 2007
Reginald Williby, City Attorney (5)	April 2008 – June 2008
Jacqueline McGee, City Attorney (5)	July 2007

* Elected position

- (1) Barbra Johnson was appointed in November of 2007 upon the resignation of Ethel White.
- (2) Linda McBride was appointed in February 2008 upon the resignation of Earnmor Burns. In April 2008, no one ran for the position so she was reappointed in May 2008. She resigned in June 2008 and Theola Mooney was appointed in July 2008.

- (3) Darion Thomas completed his term in March 2008. In April 2008, no one ran for the office so it remained vacant until John Johnson was appointed in July 2008.
- (4) In December 2007, Henrietta Stokes resigned and Deborah Borders was appointed City Clerk. The City Clerk is paid \$1,280 per month.
- (5) In January 2009, Jim Bruce was appointed City Attorney. In April 2008, Reginald Williby was appointed City Attorney and resigned in December 2008. The city was without an attorney since Jacqueline McGee resigned in July 2007.

In addition to the officials identified above, the city employed 4 full-time employees and 3 part-time employees on June 30, 2008.

Assessed valuations and tax rates for 2007 were as follows:

ASSESSED VALUATIONS

Real estate	\$	825,689
Personal property		238,294
Total	\$	<u>1,063,983</u>

TAX RATE(S) PER \$100 ASSESSED VALUATION

		<u>Rate</u>
General	\$.7600
Health		.2000

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

		<u>Rate</u>
General	\$.0100
Capital improvement		.0050

As of June 30, 2008, the city has several outstanding loans as follows:

The city owes Missouri Development Finance Board \$90,775 for improvements to the city's sewer and water system. This loan matures in July 2028.

The city also currently has two loans with the United States Department of Agriculture Rural Development. The first loan has an outstanding balance of \$19,320 as of June 30, 2008, and matures in December 2016. The second loan has an outstanding balance of \$30,207 as of June 30, 2008, and matures in October 2016.

Additionally, the city is in arrears with several vendors for past due invoices.

A statement showing receipts, disbursements, and changes in cash by each bank account for the year ended June 30, 2008 follows. This was the only financial information available for the city.

CITY OF HAYTI HEIGHTS

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH - BY BANK ACCOUNT

YEAR ENDED JUNE 30, 2008

	General Account	Road and Street Account	Payroll Account	Water Account	Sewer Account	Refuse Account	Municipal Court Account	Inner City Financing Account	Local Law Enforcement Project Account	Other Accounts *	Total
Receipts	\$ 54,357	30,924	115,193	24,837	18,623	18,385	43,918	14,906	0	712	321,855
Disbursements	<u>56,373</u>	<u>30,472</u>	<u>113,812</u>	<u>24,434</u>	<u>18,676</u>	<u>18,657</u>	<u>45,245</u>	<u>15,472</u>	<u>13,870</u>	<u>1,750</u>	<u>338,761</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(2,016)	452	1,381	403	(53)	(272)	(1,327)	(566)	(13,870)	(1,038)	(16,906)
BEGINNING BALANCE JULY 1	<u>2,260</u>	<u>62</u>	<u>354</u>	<u>15</u>	<u>233</u>	<u>232</u>	<u>1,226</u>	<u>783</u>	<u>14,134</u>	<u>2,547</u>	<u>21,846</u>
ENDING BALANCE JUNE 30	<u>\$ 244</u>	<u>514</u>	<u>1,735</u>	<u>418</u>	<u>180</u>	<u>(40)</u>	<u>(101)</u>	<u>217</u>	<u>264</u>	<u>1,509</u>	<u>4,940</u>