



Susan Montee, JD, CPA  
Missouri State Auditor

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# City of Willard

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December 2010  
Report No. 2010-155



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**Susan Montee, JD, CPA**  
Missouri State Auditor

# YELLOW SHEET

## Findings in the audit of the City of Willard

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### **Park Fund Financial Condition**

The Park Fund is in poor financial condition because the city did not adequately plan financing and operating costs of the aquatic center. The Board does not receive accurate financial information which would assist it in effectively monitoring cash balances and the financial condition of city funds. While the city estimated the costs to construct the aquatic center and obtained financing for construction, the city did not effectively plan how the city was going to make principal and interest payments for 25 years on the financing obtained. The city has had difficulty making the required payments on the Certificates of Participation (COPS) when due and the cost of operating the aquatic center was more than projected for the first operating season in 2009. As a result, the city borrowed monies from other city funds and obtained a loan from a local bank. It is unclear when or if the funds loaned to the Park Fund from the General and Water/Sewer Funds and the bank loan will be paid back. The Board failed to document its approval of changes made to the design and construction of the aquatic center and of a contract providing electrical services to the aquatic center.

### **Accounting Records**

Accounting records maintained by the city were inaccurate, and as a result, account balances were not adequately monitored, and city budgets and financial statements were also inaccurate. In addition, as a result of poor record keeping, the city failed to make a loan payment to Greene County from the General Fund when due. Also, the city failed to monitor the General Fund checking account balances and issued 30 checks totaling approximately \$81,000 when funds were not sufficient to cover these checks. As a result of the city's poor budgeting procedures, it is more difficult for the city to properly monitor receipts, disbursements, and cash balances throughout the year. Budget amendments for some city funds were not completed in a timely manner. The city did not submit an annual financial report to the State Auditor's office for the year ended December 31, 2009, and did not submit the financial report for the year ended December 31, 2008, until December 2009.

### **Procurement Procedures and Aquatic Center Financing**

Although the city adopted a procurement policy in July 2009, the city did not solicit bids, advertise for bids, or document sole source procurement or emergency situations for numerous purchases made during 2009 and 2010. In addition, the city did not solicit bids before entering into a 10-year contract with a local vendor in 2009 to provide beverages for park department activities starting in 2012. While the city solicited bids for water tower maintenance and received two bids, it appears the city renegotiated with the high bidder and entered into a 10-year contract in 2009. The city did not document its evaluation and selection of engineering services for some water and sewer system, street, and sidewalk projects. The city has not conducted a selection process and solicited proposals for an independent auditor for several years. The city has not solicited proposals from various banking institutions for the deposit of city monies since 2005 and was charged various banking fees totaling \$6,090 during the year ended December 31, 2009. COPS totaling \$3,010,000 to finance construction of the aquatic center were sold in October 2008 through a negotiated instead of a competitive sale. In addition, the Board of Aldermen did not select the COPS underwriter or legal counsel competitively.

### **Accounting Controls and Procedures**

Accounting duties are not adequately segregated. Although bank reconciliations are prepared, the Chief Financial Officer (CFO) did not adequately investigate and resolve unidentified differences. In addition, the CFO does not compare the bank balance of CDs and money market bank accounts to the book balances in the general ledger, and as a result, interest earned is not recorded. The city has not developed formal policies and procedures related to voided checks. The CFO does not record electronic transfers of payroll disbursements, payroll taxes, and employee benefits; transfers between bank accounts; and other activity on the accounting system on a timely



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basis. The city did not reconcile cash receipts to deposits or maintain the change fund at a set amount. Business licenses are not prenumbered, and there is no procedure to reconcile business licenses and building permits issued to fees collected and amounts deposited.

### **Utility System Controls and Procedures**

Significant weaknesses were identified in control procedures related to the utility system. As a result of these weaknesses, there is less assurance all utility monies have been accounted for properly, and utility charges are set at the appropriate level. While the CFO periodically reconciles gallons of water billed to customers to gallons of water pumped, significant differences are not investigated. Independent approval of adjustments posted to the utility system and the justification and reasons for the adjustments are not adequately documented. The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid for utility services including water, sewer, and trash. We noted several instances during the year ended December 31, 2009, where utility service was not disconnected for the Mayor and the Mayor's mother when their payments were delinquent and not made within 10 days. The city allows some customers who are delinquent on water, sewer, and trash bills to make payment arrangements; however, no signed written agreements are required. Utility deposits posted to customer accounts in the utility system are not reconciled to the deposit payable balance in the general ledger. The city has not performed a review of water and sewer rates for several years. Water and sewer rates charged to customers may not be set at a level consistent with the costs of providing the related services as a result of the Water/Sewer Fund subsidizing the General and Park Funds. The Mayor occasionally waives water and sewer fees for city residents in violation of city ordinance.

### **Other Findings**

Other findings in the audit report relate to disbursements, payroll controls and procedures, restricted receipts, park department controls and procedures, meeting minutes and ordinances, and capital asset procedures.

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# City of Willard

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**SUSAN MONTEE, JD, CPA**  
**Missouri State Auditor**

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Willard. We have audited certain operations of the city in fulfillment of our duties. The city engaged Officer Certified Public Accountant (CPA) Firm, LLC, to audit the city's financial statements for the year ended December 31, 2009. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2009. The objectives of our audit were to:

1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in our audit of the city.

For the areas audited, we identified deficiencies in internal controls, noncompliance with legal provisions, and the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Willard.

An additional report, No. 2010-83, *Thirty-First Judicial Circuit, City of Willard Municipal Division*, was issued in July 2010.



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The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CGFM, CIA
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City of Willard  
 Management Advisory Report  
 State Auditor's Findings

**1. Park Fund  
 Financial Condition**

The Park Fund is in poor financial condition, and the Board of Aldermen failed to document approval of changes made to the design and construction of the aquatic center and a contract.

1.1 Financial condition

The Park Fund is in poor financial condition because the city did not adequately plan financing and operating costs of the aquatic center.

Park Fund receipts, disbursements, and cash balances for the 6-month period ended June 30, 2010, and year ended December 31, 2009, are noted below:

	Six Months ended June 30, 2010*	Year ended December 31, 2009*
Cash balance, January 1	\$ 18,972	138,844
Receipts	510,469	1,056,235
Transfers in	312,457	392,428
Disbursements	(534,450)	(1,183,567)
Certificates of Participation (COPS) principal and interest payments	(236,429)	(384,968)
Restricted cash balance	36,657	34,957
Unrestricted cash balance	\$ 34,362	(15,985)

Financial information

The Board does not receive accurate financial information which would assist in effectively monitoring cash balances and the financial condition of city funds. Annual budgets, financial statements, and accounting records are not accurate, controls are lacking, and the Board does not approve all disbursements of the city (see MAR finding numbers 2, 4, and 6).

In July 2008, the Board of Aldermen approved the construction of a new aquatic center. COPS totaling \$3,010,000 were issued in October 2008, for the project. Construction started in October 2008, and the aquatic center opened in May 2009. The city received approximately \$2.6 million (COPS proceeds less various issuance costs and required reserves) for the aquatic center project and the cost of the aquatic center totaled at least \$2,648,600. The aquatic center operations are accounted for within the Park Fund.

Planning

While the city estimated the costs to construct the aquatic center and obtained financing for construction, the city did not effectively plan how the city was going to make principal and interest payments for 25 years on the financing obtained. In addition the city budgeted to use 50 percent of the 2009 (approximately \$77,000) and all of the 2010 (estimated \$185,100) capital improvement sales tax receipts to help pay for the aquatic center;



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however, this sales tax will expire in 2012 and future reliance on these receipts is uncertain.

The city has had difficulty making the required payments on the COPS when due. In June 2009, the Park Fund borrowed \$53,000 from the Water/Sewer Fund to make a COPS principal and interest payment due. In September 2009, the city obtained a \$200,000 loan from a local bank with a maturity date of September 2010, to make the Park Fund's December 2009 COPS payment and repay the Water/Sewer Fund. In September 2010, the city renewed the loan for 90 days. The city made a \$50,000 principle payment in October 2010, and plans to renew the balance of the loan (\$150,000) for another year at the end of the 90 day period. The city also has another Park Fund COPS payment due in December 2010, totaling \$129,299, and the Chief Financial Officer (CFO) indicated she plans to borrow monies from the General Fund to make this payment.

Additionally, the cost of operating the aquatic center was at least \$150,000 more than projected for the first operating season in 2009. Thus, operating receipts did not fully cover operating expenses, and funding had to be supplemented by the General and Water/Sewer Funds. As of June 30, 2010, the Park Fund owed the General Fund \$253,318 and Water/Sewer Funds \$16,552.

#### Obligations

It is unclear when or if the funds loaned to the Park Fund from the General and Water/Sewer Funds (\$269,870 plus any additional amounts borrowed in 2010) and the bank loan (\$150,000) will be paid back.

Further, the 2008 purchase of 20 acres of land for park use for \$173,433, (see MAR finding number 4) has contributed to the decline of the financial condition of the Park Fund. The city did not make a real estate purchase payment due on June 25, 2009, until October 26, 2009, as a result of the city's poor financial condition. The city was required by the real estate agreement to pay the district \$1,000 earnest money at the time of agreement, \$56,811 at closing, \$57,811 at June 25, 2009, and \$57,811 at June 25, 2010.

Good business practices require adequate planning prior to approving significant capital improvement projects. Adequate planning for major capital disbursements is necessary to ensure the project is financially feasible and supported by the taxpayers, and to help prevent potential problems or misunderstandings during the project. A project of such magnitude should have been given the utmost care, attention, and scrutiny of the Board. In addition, although short-term interfund transfers are sometimes necessary to overcome temporary cash flow problems, interfund transfers are not appropriate as a long-term funding mechanism. Further, it is essential the Board address the Park Fund's financial condition both in the immediate- and long-term future. To improve the financial condition, the Board should review disbursements and reduce spending as much as



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possible, evaluate controls and management practices to ensure efficient use of city resources, and attempt to maximize all sources of revenue. In addition, to effectively monitor the available cash and financial condition of each fund, the city needs complete and accurate financial reports.

## 1.2 Board approval

The Board failed to document its approval of changes made to the design and construction of the aquatic center and of a contract providing electrical services to the aquatic center. The Board of Aldermen did not document its approval of five of six change orders totaling \$209,069 for construction of the aquatic center. The Mayor was the only person who appeared to approve these change orders. The Mayor also signed a contract for a three-phase electrical system on September 24, 2008, without Board approval. The Board subsequently approved payment of this disbursement on October 14, 2008.

To adequately monitor construction projects and to ensure changes to the projects are reasonable and proper, change orders should be approved by the Board, and contracts should not be signed on behalf of the city without the documented authorization of the Board of Aldermen.

## Recommendations

The City of Willard Board of Aldermen:

- 1.1 Ensure adequate planning is performed and documented. All actions taken and decisions made should be fully documented during all phases of future projects. The Board should also discontinue the practice of making long-term interfund transfers, and develop and implement a repayment schedule for the amounts due to the General and Water/Sewer Funds. In addition, the Board should closely monitor the city's financial condition and take the necessary steps to improve the financial condition of the Park Fund. The Board should perform long-term planning and ensure receipts are maximized and disbursements are closely monitored. The Board should also require accurate financial reports be prepared.
- 1.2 Ensure contracts are not signed prior to documented Board approval, and change orders are properly approved.

## Auditee's Response

*The City of Willard Board of Aldermen provided the following written responses:*

- 1.1 *We will develop a plan to evaluate future large projects which will include the documentation for long term financial planning and detailed decision making processes. In order to improve the financial condition of the Park Fund, changes to park procedures which affect costs/budgeting have been implemented. The Board*



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*will review all procedures involving interfund transfers and develop a plan to reduce the amounts due between funds.*

- 1.2 *All contracts are currently approved by the Board prior to signing by the Mayor. We will ensure that board approval is documented in all meeting minutes in the future. Prior to this time, change orders which fell within the scope of the project were reviewed and approved by the Planning and Development Director. However, we have no documentation of the approval. Procedures for the approval of change orders will be implemented and will include approval by the Board. A copy of each change order will be initialed by the Board and kept as documentation.*

## 2. Accounting Records

Improvement is needed in the preparation of the city's accounting records, budgets, and financial statements, and with the city's financial reporting.

### 2.1 Accounting records

Accounting records maintained by the city were inaccurate, and as a result, account balances were not adequately monitored, and city budgets and financial statements were also inaccurate. The December 31, 2009, balance sheet did not include the book balance of the Rural Water Grant bank account totaling \$42,357 and a \$100,000 Water/Sewer Fund receivable that had already been collected was incorrectly included. In addition, the city did not record financial activity in the accounting system for the Park Fund COPS totaling approximately \$2 million, but instead relied on its auditor to update the accounting records during the audit.

In addition, as a result of poor record keeping, the city failed to make a loan payment to Greene County due on January 31, 2010, from the General Fund. On April 13, 2009, the city entered into a written agreement with Greene County for a \$25,000 loan to be used to fund an intersection improvement project. When questioned about this loan agreement, the CFO indicated the loan monies were never received from Greene County; however, the city received and recorded these monies as miscellaneous receipts on July 31, 2009. The loan agreement provided for the city to repay Greene County \$10,000 on or before January 31, 2010, and \$15,000 on or before January 2011. Greene County billed the city on July 26, 2010, for the past due balance of \$10,000 and reminded the city the remaining balance of \$15,000 was due by January 2011. The city subsequently paid Greene County \$10,000 on September 14, 2010, and \$15,000 remains due in January 2011.

Also, the city failed to monitor the General Fund checking account balances and issued 30 checks totaling approximately \$81,000 during the months of May, July, and November 2009, when funds were not sufficient to cover these checks.



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As a result of the inaccurate accounting records, actual receipts, disbursements, and cash balances reported on the budgets were not accurate. In addition, the budgets did not include the indebtedness of the city. As of December 31, 2009, the city had approximately \$7.8 million in debt.

Further, the published semi-annual financial statements for the 6 months ended December 31, 2009, and June 30, 2009, were incomplete and inaccurate as follows:

	Per City's Published Financial Statements	Per City's Independent Audit Report	Published Financial Statements Over (Under) Audit Reports
General Fund Balance, January 1	\$ 409,101	376,222	32,879
Park Fund Balance, January 1*	403,110	2,487,878	(2,084,768)
General Fund Balance, December 31	395,924	376,221	19,703
Park Fund Balance, December 31*	37,314	2,487,878	(2,450,564)
Long Term Debt Balance, January 1	7,849,000	8,049,622	(200,622)
Long Term Debt Balance, December 31	76,000	7,770,095	(7,694,095)

The city's published financial statements and independent audit report are presented on a modified cash basis.

\*The city failed to report COPS activity in the Park Fund.

To be of maximum assistance to the Board and to adequately inform the public, the accounting records and budgets of the city should accurately report financial activity and account balances. In addition, account balances should be monitored to ensure sufficient funds exist to pay disbursements. Further, Section 79.160, RSMo, requires the Board of Aldermen to prepare and publish semiannually, a full and detailed account of the receipts, disbursements and indebtedness of the city. The publication of such financial statements is intended to provide complete and accurate information to citizens regarding the financial activity and condition of the city.

## 2.2 Budgets

The city adopts its original budget for the upcoming calendar year in October, and while actual receipts and disbursements for the prior year are available in January, prior year actual receipts and disbursements are not updated on budget documents until the next year's budget is adopted the following October (9 months after the information is available). This makes it more difficult for the city to properly monitor receipts, disbursements, and cash balances throughout the year.

To ensure the budget serves as a useful management tool and provides a means to effectively monitor actual costs and receipts, the city should



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ensure actual receipts and disbursements for the prior year are updated in a timely manner.

### 2.3 Budget amendments

Budget amendments for some city funds were not completed in a timely manner. The city amended its 2009 budget on July 27 and December 28, 2009. However, prior to the December amendments, actual disbursements exceeded the July amended budgeted amounts in the Water/Sewer Fund by \$34,811. In addition, disbursements related to the aquatic center were not budgeted, and as a result, Park Fund actual disbursements exceeded budgeted amounts by \$2,002,360.

Section 67.040, RSMo, requires political subdivisions to keep disbursements within amounts budgeted and allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no disbursement of public monies should be made unless it is authorized in the budget.

### 2.4 Financial reporting

The city did not submit an annual financial report to the State Auditor's office for the year ended December 31, 2009, and did not submit the financial report for the year ended December 31, 2008, until December 2009. Section 105.145, RSMo, requires each political subdivision to file an annual report of its financial transactions. In addition, 15 CSR 40-3.030 requires the annual financial report be filed within 4 months after the end of the political subdivision's fiscal year if an unaudited financial report is filed and within 6 months after the end of the political subdivision's fiscal year if an audit report prepared by a certified public accountant is filed.

## Recommendations

The City of Willard Board of Aldermen:

- 2.1 Ensure accounting records and budgets accurately reflect the financial activity of the city and cash balances are properly monitored. The Board should also ensure published financial statements are accurate and contain the appropriate level of detail.
- 2.2 Update budget documents in a timely manner.
- 2.3 Ensure budget amendments are made prior to incurring related disbursements.
- 2.4 Submit an annual financial report to the State Auditor's office as required by state law.



## Auditee's Response

*The City of Willard Board of Aldermen provided the following written responses:*

- 2.1
- &2.3 We agree.
- 2.2 *The projected year end column in the budget will be changed to actual year end as soon as the prior year financial statements are closed.*
- 2.4 *We will require the annual audit be performed in a more timely manner. If not completed within the six months, unaudited financial statements will be submitted. Annual financial statements will be submitted in an electronic format as soon as the audit is completed.*

### 3. Procurement Procedures and Aquatic Center Financing

Procurement practices need improvement. According to city records, disbursements in the General Fund, Water/Sewer Fund, and Park Fund totaled approximately \$1.5 million, \$2.3 million, and \$1.4 million, respectively, during the year ended December 31, 2009. In addition, COPS for the aquatic center were sold through a negotiated instead of a competitive sale, and the COPS underwriter and counsel were not competitively selected by the Board.

#### 3.1 Bidding

Although the city adopted a procurement policy in July 2009, which requires city officials to solicit bids for items or services costing more than \$1,000 and advertise for bids for items or services costing more than \$5,000, the city did not solicit bids, advertise for bids, or document sole source procurement or emergency situations for numerous purchases made during 2009 and 2010, including:

Item or Service	Cost
Trash services (2009 annual-two vendors)	\$ 91,225
Plumbing supplies (2009 annual)	65,455
Fuel (2009 annual-three vendors)	46,626
Well repairs	45,158
Gravel (2009 annual)	12,060
Painting at the community center	10,890
Computer services (2009 annual)	7,433
Printing services (2009 annual)	6,786
Cleaning services (2009 annual)	6,500
Dump truck repairs	4,566
Propane (2009 annual)	4,322

While city officials indicated the plumbing supplies were obtained from a sole source and the well repairs were an emergency purchase, the city failed to document these purchases as such. Also, while city officials indicated



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they obtained bids for paving services, the city did not retain documentation of the bids. The city disbursed over \$25,000 to two vendors for paving in 2009.

In addition, the city did not solicit bids before entering into a 10-year contract with a local vendor in 2009 to provide beverages for park department activities starting in 2012. The terms of the contract were renegotiated from an existing 10-year contract (originally negotiated in 2002), and required the vendor to pay the city \$27,342 in sponsorship fees to be used toward the cost of scoreboards. In addition to the sponsorship fees, the city is provided with concession menu boards and letters, banners, and umbrellas. The contract provides the vending company with the exclusive rights to distribute its products at all park locations. The city paid this vendor \$17,607 for beverages during the year ended December 31, 2009.

Also, while the city solicited bids for water tower maintenance and received two bids, it appears the city renegotiated with the high bidder and entered into a 10-year contract in 2009 in which the city will pay the vendor \$316,876 over the life of the contract to perform these services. The city did not retain documentation of the selection process or the renegotiation of the contract.

In addition to complying with city ordinances, competitive bidding helps ensure all parties are given an equal opportunity to participate in city business. Complete documentation should be maintained of all bids and proposals received and the reasons why a bid or proposal was selected. Because the beverage contract was not bid and the water tower maintenance contract was not bid properly, city officials have no assurance the current agreements offer the most benefits to the city. Further, city officials should reconsider long-term agreements that obligate the district to a single vendor.

### 3.2 Engineering services

The city did not document its evaluation and selection of engineering services for some water and sewer system, street, and sidewalk projects. The city paid two engineers \$37,953 and \$23,692, respectively, for work completed during the year ended December 31, 2009.

Sections 8.285 to 8.291, RSMo, provide guidance on obtaining, evaluating, and negotiating such services.

### 3.3 Audit services

The city has not conducted a selection process and solicited proposals for an independent auditor for several years. The city paid \$21,867 for audit services during the year ended December 31, 2009.

Selection processes are necessary to ensure the city is receiving the best services and rates. The process should include advertising and soliciting



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proposals and evaluating the proposals for technical experience, capacity and capability of performing the work, past record of performance, and the firm's proximity to and familiarity with the city. Information concerning the selection process should be documented and retained.

### 3.4 Banking services

The city has not solicited proposals from various banking institutions since 2005 for the deposit of city monies and was charged various banking fees totaling \$6,090 during the year ended December 31, 2009. The Board should solicit formal proposals for its banking services on a periodic basis. Doing so will help ensure the banking services received, as well as the costs of those services, are reasonable and competitive.

### 3.5 Aquatic center financing

COPS totaling \$3,010,000 to finance construction of the aquatic center were sold in October 2008 through a negotiated instead of a competitive sale. In addition, the Board of Aldermen did not select the COPS underwriter or legal counsel competitively. The Board used an underwriter and legal counsel it was familiar with and relied upon the advice of the bond underwriter instead of seeking open bids assuring the most competitive rate of return for taxpayers.

COPS are a method of financing a capital project whereby a tax-exempt corporation, sells interests (certificates of participation) in the capital project, leases the project to a local government, and repays the certificates with the lease payments. After the certificates have been repaid, the local government typically has the option to purchase at a minimal amount the capital project it has been leasing. COPS are not required to be approved by city voters.

Historically, negotiated sales result in increased interest costs. While Missouri law does not require competitive sales of these types of financing instruments or competition in selecting underwriters and legal counsel, the historically lower interest costs on competitive sales suggest such sales to be in the best interest of the city.

## Recommendations

The City of Willard Board of Aldermen:

- 3.1 Ensure bids are solicited for all applicable purchases in accordance with city ordinances and sufficient documentation is maintained. In addition, the Board should solicit bids for city beverage services, and reevaluate the practice of entering into long-term contracts.
- 3.2 Comply with state law when procuring engineering services and document the evaluation and selection process.
- 3.3 Solicit proposals for audit services on a periodic basis.



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- 3.4 Solicit proposals for banking services on a periodic basis.
  - 3.5 Pursue fair and open competition in any future financing option sales.

## Auditee's Response

*The City of Willard Board of Aldermen provided the following written responses:*

- 3.1 *The purchasing policy is currently being rewritten and will address bid solicitation, documentation, and contracts. The trash services listed in this section were for citizen trash services, which are billed through the city. It is understood that in the future, this process should be bid. The plumbing supplies are currently obtained through local vendors and are periodically checked for low price. Documentation will be retained for this process.*
- 3.2 *We agree.*
- 3.3 *Proposals for services will be requested every 3-5 years for the services of auditors.*
- 3.4 *The city will solicit proposals for banking services.*
- 3.5 *The purchasing policy will address the need for competitive proposals to be submitted for future financing options.*

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## 4. Disbursements

Weaknesses were noted in controls and procedures over disbursements.

### 4.1 Approval process

The approval process for disbursements is not adequate.

- The list of bills approved by the Board each month is not complete, and a comparison of this list to the approved invoices and actual checks written is not performed. The list of bills approved by the Board each month does not include payroll disbursements. In addition, non-payroll disbursements are sometimes not included on the lists. For example, the November 9, 2009, list of bills did not include disbursements totaling \$98,246.
- The Board does not review or approve transfers between restricted funds or transfers between bank accounts. The CFO made 43 transfers totaling \$1,802,191 during the year ended December 31, 2009, without Board approval.
- While the city purchasing policy requires all invoices be approved by the Mayor, City Administrator (the Board President has been approving



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since this position has not been filled), and department heads, the Mayor, Board President, and department heads failed to document their approval on 4 of 38 disbursements reviewed totaling \$66,152. In addition, for 6 of 38 invoices reviewed, the Board approved payments to vendors without requiring the department head or an employee to acknowledge receipt of goods or services.

To ensure disbursements and transfers are an appropriate use of city funds, the Board should perform an adequate review of the list of bills to be approved, invoices, and checks written; develop policies and procedures to review and approve transfers; and require department heads or employees most knowledgeable of transactions to document receipt of goods or services.

#### 4.2 Dual signatures

Two signatures are required for all checks; however, the CFO signs the checks and applies the Mayor's signature stamp to all checks. The Mayor does not document his review and approval of the use of the stamp. Dual signatures help provide assurance checks represent payment for legitimate city disbursements. By circumventing this control, there is less assurance all disbursements are legitimate and properly authorized.

#### 4.3 Purchase orders

Purchase orders were not always approved prior to the date of purchase, delivery, or invoice. Of 38 disbursements reviewed, 4 purchase orders were signed after the date of purchase, delivery, or invoice. To ensure the validity and propriety of disbursements, purchase orders should be approved prior to the date of purchase, delivery, or invoice. City policy requires purchase orders be prepared and approved for all disbursements.

#### 4.4 COPS draw down approval and supporting documentation

Board approval of requests for draw down of funds from COPS made by the CFO is not always documented, and adequate supporting documentation was not maintained for some aquatic center and other disbursements. Approval was not documented for 6 of the 19 draw downs from the Park COPS, totaling \$249,745. We noted similar problems with draw downs made from other COPS.

In addition, the Board of Aldermen did not review and approve actual invoices from vendors to support requests for draw downs of COPS proceeds used to pay the vendors. The Board of Aldermen only approved a list showing the name of the vendor and amount requested. Further, the city paid \$152,434 and \$29,821 for construction and design services without retaining the related invoices. At our request, the city obtained these invoices from the vendor.

Board approval of all requests for draw down of funds from COPS should be documented; all disbursements should be supported by paid receipts, itemized vendor invoices, or other detailed documentation; and all support



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should be reviewed by the Board to ensure the obligation was actually incurred and the amount paid is proper.

**4.5 Duplicate vendor names** The city vendor list contained 82 duplicate vendor names, each with a separate vendor number. One vendor was included on the list five times. Deleting duplicate vendor names would give the city better control over vendor information and result in a more efficient operation.

**4.6 Real estate purchase** The city did not obtain an appraisal prior to purchasing property to ensure \$8,000 per acre was a reasonable price. The city has not utilized the acreage and does not have a documented plan for use of the property. In 2008, the city purchased 20 acres of land from the Willard R-II School District for \$173,433 (\$160,000 of principal and \$13,433 of interest) using Park Funds. Although the meeting minutes document the Board's vote to purchase the land, the minutes do not document any discussion by the Board regarding its plan to use the property. The land has not been developed and remains vacant, and there is no evidence to indicate why the city needed this acreage.

Considering the large investment of city funds, the Board of Aldermen should have a documented plan for the utilization of the acreage. Adequate planning will help ensure the best use of city property.

**4.7 Reporting of compensation** The city incorrectly classified the Mayor as a contractor instead of an employee and failed to withhold and match appropriate taxes as required. In addition, amounts reported as compensation to the IRS were incorrect for the Mayor and Building Inspector, and payments to the attorney and for painting services were not reported. In 2009 the city issued 1099 forms for compensation paid to the Mayor and Building Inspector totaling \$3,200 and \$3,168, while actual compensation paid totaled to \$3,610 and \$3,744, respectively. In addition, during 2009, the city did not report payments totaling \$58,181 and \$10,890 made to its attorney and for painting services, respectively, to the IRS as required.

The IRS requires employers to report compensation on W-2 forms and withhold and remit federal income taxes. Similarly, Chapter 143, RSMo, includes requirements for reporting wages and withholding state income taxes. Also, state and federal laws require employers to pay the employer's share of Social Security and Medicare on the compensation paid to employees. Section 105.300, RSMo, defines an appointive officer or employee of a political subdivision as an employee for Social Security purposes.

Additionally, Sections 6041 to 6051 of the Internal Revenue Code require non-wage payments of a least \$600 in one year to an individual be reported to the federal government on Form 1099.



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#### 4.8 Cellular phones

Detailed bills are not obtained for city owned cellular phones. As a result, the city cannot adequately monitor use to determine if such use is appropriate, necessary, and of benefit to the city. In 2010, the city had 11 cellular phones (4-park department, 2-public works department, 4-police department, and 1-CFO). The city disbursed approximately \$11,000 for cellular phones during the year ended December 31, 2009.

The city cellular phone policy requires department heads and the finance department to review monthly cellular phone bills for compliance with the policy (including personal calls and cellular phone plan needs). Adequate monitoring and review procedures are needed to determine which employees need a cellular telephone and to ensure cellular phones are used in compliance with city policy.

#### 4.9 Cellular phone allowances

Improvement is needed in the handling of cellular phone allowances. The city provided monthly \$50 cellular phone allowances to the Mayor, City Clerk, Public Relations Director/Deputy City Clerk/Deputy Court Clerk, and three public works employees. The city disbursed \$3,180 during the year ended December 31, 2009 for cellular phone allowances.

Officials and employees are not periodically required to submit invoices or other supporting documentation to justify the cellular phone allowances paid, and the allowances paid were not included in amounts reported on the respective official or employee 1099 or W-2 forms. In addition, cellular phone allowances were not consistently paid each month. Some months a cellular phone allowance was only paid to some employees and other months cellular phone allowances were paid twice.

The city cellular phone policy provides for cellular phone allowances to be paid monthly. IRS regulations provide when an employer issues a check to an employee without requiring proof of reimbursement for actual expenses incurred, the amount is taxable income and should be reported on the officials' or employees' W-2 forms. In addition, to ensure the cellular phone allowance is reasonable, the city should periodically require documentation supporting cellular phone use.

#### 4.10 Fuel and usage logs

Fuel and usage logs are not maintained for equipment and vehicles, and fuel usage is not reconciled to fuel purchases. The city purchased approximately \$47,000 of fuel from three local stations during the year ended December 31, 2009.

Mileage and fuel usage logs are necessary to document the appropriate use of equipment and vehicles and to support fuel charges. The logs should include sufficient documentation to determine reasonableness of miles driven and allow reconciliation of fuel use to fuel purchases.



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#### 4.11 Written contracts

The city did not always enter into written contracts defining services provided and benefits received.

- The city did not enter into a written contract with the Willard R-II School District for funding totaling over \$127,000 for an intersection improvement project. As a result, the city may not be reimbursed \$25,000 from the Missouri Department of Transportation for a cost sharing agreement related to this same intersection.
- The city entered into a verbal agreement with an individual to clean city hall, and the city paid this individual \$6,500 in 2009. No invoices or supporting documentation was submitted by this individual.
- The city entered into a verbal agreement with an individual to teach dance classes. The dance teacher was paid 75 percent of tuition collected and the city retained the remaining 25 percent. The city paid this individual \$6,750 in 2009.

Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

#### Recommendations

The City of Willard Board of Aldermen:

- 4.1 Establish adequate review and approval procedures for disbursements and transfers.
- 4.2 Ensure the Mayor documents his review and approval of the use of the signature stamp.
- 4.3 Ensure purchase orders are approved prior to the date of purchase, delivery, or invoice.
- 4.4 Document approval of draw downs of funds from COPS and require and review adequate supporting documentation for all disbursements.
- 4.5 Ensure vendor files are periodically reviewed by someone independent of the disbursement process and ensure duplicate vendors are eliminated.
- 4.6 Document the plan for the 20 acres and, in the future, obtain an independent appraisal prior to the purchase of real estate.
- 4.7 Ensure compensation is reported on W-2 forms and non-wage payments are reported on 1099 forms and reconcile these forms to



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payments made to employees or applicable vendors as appropriate. Amended W-2 forms or 1099 forms should be filed for payments made in 2009.

- 4.8 Require detailed cellular phone bills, and improve monitoring and review procedures over cellular phone assignments and use.
- 4.9 Require adequate supporting documentation of amounts paid to employees be submitted or report these payments on employee W-2 forms and subject the allowances to payroll tax withholdings. In addition, the Board should amend prior W-2 forms. The Board should also evaluate the amount of the allowances for reasonableness and ensure cellular phone allowances are paid consistently in compliance with city policy.
- 4.10 Require fuel use logs be maintained for all city-owned vehicles and equipment, and these logs be reviewed and reconciled to fuel purchases. Any significant discrepancies should be investigated.
- 4.11 Enter into written contracts defining services provided and benefits received.

## Auditee's Response

*The City of Willard Board of Aldermen provided the following written responses:*

- 4.1 *Policies are in place for documenting the receipt of goods and services. However, in some cases the documentation was not complete. We will ensure this process is followed in the future. The purchase order is also signed by the department head. The unpaid invoice listing, invoices, and checks written are currently reviewed for accuracy and a second accounts payable process will be set up for each month. A report of transfers between bank accounts will be approved by the Board of Aldermen.*
- 4.2 *The procedures for the use of the Mayor's signature stamp will be revised to ensure his approval of the actual check amount.*
- 4.3 *Our policy requires purchase orders to be approved prior to the date of purchase. In the future, we will ensure this policy is followed and approval is documented.*
- 4.4,4.7,  
&4.11 *We agree.*



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- 4.5 *The vendor files carry some duplicates due to the different mailing addresses assigned. The files will be reviewed for duplication and accuracy.*
- 4.6 *The Willard Park Board is in the process of developing a plan for the Miller Farm Park. All real estate purchases will have an appraisal prior to purchase.*
- 4.8 *Requests for detailed cell phone bills have been made. The bills for each phone will be reviewed each month by the appropriate department head. Cell phone procedures and assignments will be reviewed.*
- 4.9 *The city will develop new procedures and requirements for the receipt of cell phone allowances and supporting documentation.*
- 4.10 *Fuel use logs were always required for all city owned vehicles and equipment, but logs were not always maintained. In the future, these logs will be reviewed and checked for accuracy by department heads. The documentation will be expanded to include additional information as recommended.*

## 5. Payroll Controls and Procedures

Controls and procedures over payroll disbursements need improvement.

### 5.1 Lack of review

An adequate review of employee timesheets, computerized payroll reports, and payroll checks is not performed by supervisors, the CFO, or the Board. The lack of adequate review procedures increases the potential for errors to go undetected. Timesheets were not signed by some employees and were not always reviewed or signed by supervisors to ensure accuracy.

As a result of the lack of adequate review, the city over paid police officers \$354 for hours worked relating to a Hazardous Moving Violations grant. Five police officers were compensated twice for hours worked during the 2-week pay period ended May 27, 2009. These employees were compensated on May 27, 2009, and again on June 13, 2009. In addition, two police officers were compensated at their overtime rate when they had not worked any overtime. Also, one officer was compensated at a rate of pay which exceeded his normal rate of pay.

Timesheets should be reviewed and signed by the employee and the employee's supervisor to indicate their agreement to the actual time reported each month and to ensure the accuracy of time worked and leave taken.



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## 5.2 Documentation

Documentation was not maintained to support "other compensation" paid to some park department employees in addition to their regular salary amounts. For example, the city paid 33 park department employees for "other compensation" totaling \$7,265 during the 2-week pay period ended June 13, 2009. The park department Director indicated these payments were for referees at sporting events; however, no documentation was retained to support these payments. The city paid park department employees "other compensation" totaling approximately \$84,000 during the year ended December 31, 2009, and the park department Director indicated documentation of these payments was not retained prior to October 2009.

Documentation of "other compensation" should be retained to support these payments and ensure the obligation was actually incurred and the disbursement represents an appropriate use of public funds.

## 5.3 Personnel policies

The city is not compensating some employees for overtime in compliance with its overtime policy and the Fair Labor Standards Act of 1938 (FLSA) requirements, and the city personnel policy does not adequately address holidays and lunch breaks.

- Several park department employees have multiple duties for which they are paid different rates, and several of these employees work over the standard 40 hour work week and are not paid overtime as required by city policy and the FLSA. For example, during the 2-week pay period ended June 13, 2009, a park department employee was compensated for 99.5 hours at his regular pay rate for each duty performed. This employee worked 19.5 hours of overtime, but was not paid in compliance with the overtime policy or the FLSA which requires any time worked in excess of 40 hours per week be paid at time and a half.
- The city personnel policy does not adequately address holiday pay. Some city employees work four 10-hour days, while others work five 8-hour days per week. Employees who work 10-hour days receive 10 hours of holiday pay per holiday, while those who work 8-hour days receive 8 hours of holiday pay. As a result, those employees who work 10-hour days receive up to 28 more hours of holiday pay each year than other city employees.
- The city personnel policy does not address whether employees are compensated for their lunch break, and as a result, some employees are paid for their lunch break and others are not. As a result, those employees who are paid for their lunch break are compensated up to 260 more hours per year than other city employees.

Strict compliance with personnel policies is necessary to ensure employees are treated equitably and are properly compensated. In addition, detailed



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written policies are necessary to provide guidance to city employees, provide a basis for proper compensation, ensure equitable treatment among employees, and avoid misunderstandings.

#### 5.4 Clothing and lifeguard certification allowances

Procedures have not been established to ensure IRS regulations are followed regarding clothing and lifeguard certification allowances. As a result, the city may be subject to penalties and/or fines for failure to report all taxable benefits.

The city paid 10 police officers clothing allowances totaling \$6,500 (\$650 each) and 16 lifeguards a total of \$2,400 (\$150 each) for lifeguard certifications in 2009. The officers and lifeguards were not required to submit invoices or itemized expense reports to support the allowances, nor were the allowances reported on their W-2 forms. In addition, the Sports Coordinator indicated lifeguard certifications cost approximately \$50 each.

IRS regulations require employee business expenses not accounted for to the employer be considered gross income and payroll taxes be withheld from the undocumented payments.

### Recommendations

The City of Willard Board of Aldermen:

- 5.1 Ensure adequate reviews of timesheets, payroll reports, and paychecks are performed. The Board should also ensure timesheets are signed by the employee and their supervisor, and seek reimbursements of any overpayments.
- 5.2 Review these unsupported payroll disbursements and ensure documentation is retained.
- 5.3 Ensure compliance with the city overtime policy and the FLSA, and review and revise the personnel policy to adequately address holiday pay and lunch breaks.
- 5.4 Require police officers and lifeguards to submit itemized reports of uniform clothing purchases and lifeguard certification costs or report the allowance payments as other income on the W-2 forms. In addition, prior years' W-2 forms should be amended for any reimbursements for which an adequate accounting cannot be provided.

### Auditee's Response

*The City of Willard Board of Aldermen provided the following written responses:*

- 5.1 *Policy requires department heads to review all timesheets and ensure the timesheets are signed by the employee and their*



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*supervisor. However, policy was not always followed. Review of all payroll reports, etc. will be conducted by the CFO bi-weekly.*

5.2 *Documentation will be retained for all payroll disbursements.*

5.3 *The city's overtime policy will be strictly enforced. The park department has implemented new procedures to ensure that no employee works over forty hours per week in any capacity. A new holiday policy will go into effect January 1, 2011, to ensure all employees receive eight hours of pay per holiday. City policy is not to pay employees for their lunch breaks. In the future, all timesheets will be reviewed for adherence to city policy.*

5.4 *Uniform allowance policies have been revised to ensure payments are made for uniform expenses only. We will require documentation of purchases before reimbursement. Lifeguard certification costs are no longer reimbursed.*

## 6. Accounting Controls and Procedures

Accounting duties are not adequately segregated. Differences identified on bank reconciliations are not properly investigated and corrected, and bank balances for some certificates of deposit (CDs) and money market accounts were not compared to book balances recorded in the general ledger. Improvement is needed in the controls and procedures over voided checks, recording transactions, change funds, and business licenses and building permits.

### 6.1 Segregation of duties

Accounting duties are not adequately segregated. The CFO is responsible for recording receipts and disbursements, preparing and distributing checks, signing checks and applying the Mayor's signature stamp, preparing all financial records, and reconciling bank accounts.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties is not possible, a timely supervisory review of the work performed is necessary. Good management practices require extensive and detailed oversight by the Board.

### 6.2 Bank reconciliations

Although bank reconciliations are prepared, the CFO did not adequately investigate and resolve unidentified differences. In addition, the CFO does not compare the bank balance of CDs and money market bank accounts to the book balances in the general ledger, and as a result, interest earned is not recorded.

- At December 31, 2009, the reconciled bank balance for the Water/Sewer checking account exceeded the balance of this account on the trial balance by \$150,000, and no explanation of the difference was documented on the bank reconciliation. Our review determined that



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although a transfer was recorded in the accounting records in December 2009, the actual transfer was not made until February 2010, causing the difference. The CFO could not explain why she recorded the transfer in December or the delayed transfer of funds in February.

- Adjustments totaling \$822 and \$489 were reported by the CFO on the December 31, 2009, General Fund checking account and court bank account reconciliations, respectively, without adequate documentation as to why the adjustments were necessary. The CFO could not explain the adjustments to either bank account. However, we determined an outstanding check issued in December 2009 totaling \$822 was not included on the outstanding check list for the General Fund checking account, and the court bank account balance was short by \$277 due to unrecorded credit card processing fees electronically withdrawn from the account. Other recording errors made up the remaining balance of the adjustment to the court bank account.
- Bank balances for the two CDs and four money market accounts were not compared to book balances recorded in the general ledger, and as a result, interest earned totaling \$413 had not been recorded in the accounting records as of December 31, 2009.

Bank reconciliation adjustments and differences should be investigated and corrected on a timely basis to ensure the accuracy of cash and liability balances. Adequate documentation should be maintained for the bank reconciliation process. In addition, to ensure accounting records agree with bank records, discrepancies should be investigated on a timely basis.

### 6.3 Voided checks

The city has not developed formal policies and procedures related to voided checks. The CFO voids the check in the accounting system if she thinks the payee will not negotiate the check. Currently, the CFO does not issue stop-payment orders on the voided checks and adequate documentation of the checks is not retained. The CFO voids checks in the accounting system by making adjusting entries, but does not track which checks make up the total amount of the adjusting entry.

Because stop payment orders were not issued, six checks totaling \$468, that were previously voided and removed from the system later cleared the bank. The CFO indicated she probably voided these checks prior to December 2009; however, she did not issue stop-payment orders or retain adequate documentation of the adjustments.

To ensure voided checks are handled and accounted for properly, the city should establish formal policies and procedures.

### 6.4 Untimely recording of transactions

The CFO does not record electronic transfers of payroll disbursements, payroll taxes, and employee benefits; transfers between bank accounts; and



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other activity on the accounting system on a timely basis. As a result, the CFO must make numerous adjustments to bank reconciliations each month to balance to the accounting system. These transactions are not recorded in the accounting system until after the bank reconciliations are prepared.

To ensure all city transactions are accounted for properly, receipts, disbursements, and transfers should be recorded in the accounting system when they occur.

## 6.5 Change fund

The city did not reconcile cash receipts to deposits or maintain the change fund at a set amount. The city maintains a \$150 and a \$100 change fund. During our cash count conducted on May 10, 2010, each change fund was \$10 short. To ensure receipts and change funds are accounted for properly, receipts should be reconciled to deposits and the change fund maintained at a set amount.

## 6.6 Business licenses and building permits

Business licenses are not prenumbered, and there is no procedure to reconcile business licenses and building permits issued to fees collected and amounts deposited. To ensure fees for all licenses and permits are properly collected, recorded, and deposited, the licenses should be prenumbered and the numerical sequence accounted for properly, and the licenses and permits issued should be periodically compared to fees recorded and deposited.

## Recommendations

The City of Willard Board of Aldermen:

- 6.1 Segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures.
- 6.2 Investigate and resolve any adjustments and differences in a timely manner. The CFO should also maintain detailed documentation to support this process. The Board should also ensure bank balances of CDs and money market accounts are compared to the general ledger.
- 6.3 Establish formal policies and procedures for voided checks.
- 6.4 Ensure all transactions are recorded in the accounting system as they occur.
- 6.5 Ensure receipts and change funds are reconciled to deposits and the change fund is maintained at a set amount, and any shortages are investigated.
- 6.6 Issue prenumbered licenses and account for the numerical sequence, and reconcile licenses and permits issued to fees recorded and deposited.



## Auditee's Response

*The City of Willard Board of Aldermen provided the following written responses:*

- 6.1 *With the addition of additional personnel in the finance department, segregation of duties will increase. Appropriate reviews and monitoring procedures will be implemented.*
- 6.2 *We agree.*
- 6.3 *Formal policies and procedures for voided checks are being written. Stop payment orders will be put in place before any check is voided.*
- 6.4 *At the present time, all transactions are recorded at the end of the month. With the addition of personnel to the finance department, new procedures will be developed to enter transactions on a weekly basis.*
- 6.5 *City policy requires change funds to be maintained on a daily basis and reconciled to deposits. Any shortages are investigated to ensure accuracy of deposits and customer accounts.*
- 6.6 *The software programs used for business licenses and permits are currently being upgraded by our contract information technology company. It will pre-number all permits and licenses at the time of issue. Daily reconciliations of licenses and permits sold will be done to a report generated by the software.*

## 7. Utility System Controls and Procedures

Significant weaknesses were identified in control procedures related to the utility system. As a result of these weaknesses, there is less assurance all utility monies have been accounted for properly, and utility charges are set at the appropriate level to cover the cost of providing the related services. Per the accounting records, the utility system operating receipts were in excess of \$1.7 million for the year ended December 31, 2009.

### 7.1 Water usage

While the CFO periodically reconciles gallons of water billed to customers to gallons of water pumped, significant differences are not investigated. During the months of April and October 2009, the gallons of water pumped exceeded the total gallons billed by 9,736 and 3,928, or 40 and 20 percent, respectively. In addition, the city does not track city water usage and fire hydrant flushing and usage. The Missouri Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

As a result of not investigating these differences, unauthorized use may occur and not be billed. For example, the city failed to install a meter and



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bill a local business for water and sewer service since the city started providing these services many years ago. The city was notified of the unmetered service by a citizen and installed a meter in May 2009, but as of October 27, 2010, the city still had not billed the customer, and approximately 7,000 gallons of water had been used. Proper investigation of differences may have found this unbilled customer on a more timely basis.

To help detect significant water loss on a timely basis and ensure water usage is properly billed, the city should track city and hydrant usage and investigate significant differences between water billed and water pumped. Documentation of the reconciliation should be retained to support conclusions and to facilitate an independent review.

## 7.2 Adjustments

Independent approval of adjustments posted to the utility system and the justification and reasons for the adjustments are not adequately documented. The utility clerks collect utility payments and have the ability to post adjustments to the computer system without obtaining documented independent approval. According to city employees, the approval of the CFO is obtained prior to any adjustment; however, this approval is not always documented. In addition, we noted some adjustments were made by the CFO and the justification and reasons for the adjustments were not adequately documented. During the period October through December 2009, 390 credit/debit adjustments were made to customer accounts in the net negative amount of \$5,629,978.

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

## 7.3 Reconciliations

The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid for utility services including water, sewer, and trash. Monthly reconciliations are necessary to ensure all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis.

## 7.4 Shut-off procedures

We noted several instances during the year ended December 31, 2009, where utility service was not disconnected for the Mayor and the Mayor's mother when their payments were delinquent and not made within 10 days. City ordinance provides for all delinquent customers to be disconnected 10 days after payment is due.

The city's failure to disconnect service for elected officials and their relatives in accordance with city ordinance creates the appearance these officials benefited improperly. The Mayor and members of the Board of Aldermen serve the city in a fiduciary capacity. Failure to pay their utility accounts on a timely basis could harm public confidence and reduce the effectiveness of the elected officials.



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### 7.5 Payment plans

The city allows some customers who are delinquent on water, sewer, and trash bills to make payment arrangements; however, no signed written agreements are required. In addition, no formal policy has been developed documenting the process to determine the payment amount and approval process.

To ensure all customers are treated in a fair and equitable manner, a formal policy should be established documenting the process to determine when payment plans are allowed, how the payment amount is established, and the approval process for these plans. A written and signed payment agreement is necessary to indicate the intent of the customer to pay the outstanding balance and to aid in accounting for and collecting the amounts due to the city.

### 7.6 Utility deposits

Utility deposits posted to customer accounts in the utility system are not reconciled to the deposit payable balance in the general ledger. New customers are required by ordinance to pay a refundable deposit before receiving utility service. At our request, the City Clerk printed a list of deposits posted to customer accounts and the CFO printed the deposit payable balance in the general ledger as of July 31, 2010. The list of deposits totaled \$77,178 and the deposit payable balance totaled \$132,392, resulting in a difference of \$55,214.

Monthly reconciliations of the list of deposits to the deposit payable balance are necessary to ensure sewer deposits are properly recorded in both the customer accounts and the general ledger. Any discrepancies should be promptly investigated and resolved.

### 7.7 Water and sewer rates

Water and sewer rates charged to customers may not be set at a level consistent with the costs of providing the related services. The city has not performed a review of water and sewer rates for several years. Water rates have not changed since 2005, and sewer rates have increased each year from 2007 to 2010 with no support for the increases. In addition, city customers may be paying too much for water and sewer services, as a result of the Water/Sewer Fund subsidizing the General and Park Funds. As of June 30, 2010, \$157,362 is due to the Water/Sewer Fund from General (\$140,810) and Park Funds (\$16,552).

Water and sewer fees are user charges which should cover the cost of providing the related services, but rates should not be set at a level which results in excessive fund balances. In addition, water and sewer services should not generate profits to fund (through subsidization) other services provided by the city. Periodic rate studies are necessary to ensure user charges are set at appropriate levels.



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7.8 Water and sewer fee  
waivers

The Mayor occasionally waives water and sewer fees for city residents in violation of city ordinance. City ordinance indicates sewer fees may be waived by the Board of Aldermen for good cause shown. The Board should consult legal counsel regarding waived fees to ensure compliance with city ordinance.

Recommendations

The City of Willard Board of Aldermen:

- 7.1 Investigate significant differences between gallons of water pumped to gallons billed and other usage on a monthly basis, and ensure all usage is appropriately billed and collected.
- 7.2 Require an independent review and approval of all utility system adjustments and ensure adequate documentation is retained to support such adjustments.
- 7.3 Ensure monthly reconciliations of the amounts billed to amounts collected and delinquent accounts are performed. In addition, the Board should ensure adequate documentation to support reconciliations is retained.
- 7.4 Ensure utility service is shut-off in accordance with city ordinance.
- 7.5 Establish a formal policy that documents procedures and requirements for customers to be allowed to pay outstanding water, sewer, and trash balances over a period of time and obtain signed written payment agreements.
- 7.6 Ensure a complete list of utility deposits is prepared monthly and reconciled to the deposit payable balance in the city's general ledger. Any discrepancies should be investigated and resolved.
- 7.7 Review water and sewer rates periodically to ensure receipts are sufficient to cover all costs of providing these services, but not set at a level which results in excessive fund balances. Such reviews should be documented.
- 7.8 Consult legal counsel regarding the waiving of fees, and ensure fees are waived in accordance with city ordinance.

Auditee's Response

*The City of Willard Board of Aldermen provided the following written responses:*

- 7.1 *In an effort to enhance efforts to properly document the process of reconciling water shortages, the monthly reports will be prepared by the public works department.*



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- 7.2 *The prior month's utility adjustment report is now presented before the Board of Aldermen for approval each month.*
- 7.3 *A monthly report of amounts billed, collected, and delinquencies will be prepared and included in the reports to the Board of Aldermen.*
- 7.4 *The shut-off policy will be followed in accordance with city ordinance.*
- 7.5 *A policy has already been implemented which requires customers to sign a payment agreement which includes a written plan for paying all outstanding balances.*
- 7.6 *In July 2009, the city switched software providers for the utility billing. As a result of this switch, the utility deposit records were in two different programs. This has been corrected. The deposit journals will be reconciled on a monthly basis.*
- 7.7 *A yearly rate analysis will be conducted and reviewed by the Board of Aldermen. Sewer rate increases have been made by ordinance in 2007 through 2010 to cover the increases put in place by the City of Springfield.*
- 7.8 *A formal policy will be developed on the waiver of fees in all departments and approved by the Board of Aldermen.*

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## **8. Restricted Receipts**

The city has not established adequate procedures to ensure restricted monies are disbursed only for the intended purposes, and salaries and other disbursements are properly allocated among funds.

### **8.1 Tracking and recording of restricted receipts**

The city is not properly tracking and recording various restricted monies. State motor vehicle-related receipts, capital improvement sales taxes, Police Officer Standards Training (POST), Law Enforcement Training (LET), and Judicial Education (JE) fees are not accounted for properly. These monies are deposited into the General Fund and while receipts and disbursements are tracked, the balances of the restricted monies are not. As a result, the city cannot determine at a point in time what portion of the General Fund represents restricted streets, training, or education monies.

Article IV, Section 30, Missouri Constitution, requires motor vehicle-related receipts apportioned by the state of Missouri be disbursed for street related purposes only. Section 94.577, RSMo, specifies how sales tax monies are to be used and indicates these monies should be deposited into separate funds. City ordinance also requires these monies be deposited into separate funds. Section 488.5336.2, RSMo, requires POST and LET fees be used only for the training of law enforcement officers. Section 479.260.1, RSMo, requires



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JE fees be used for judicial education and training of the Municipal Judge or Court Clerk.

## 8.2 Allocation of salaries and disbursements

Documentation does not exist to support the allocation of some disbursements to city funds.

- Salaries of employees who perform multiple functions are allocated among restricted funds, and no documented calculation or tracking of time has been completed to justify these allocations. For example, salaries of the CFO, City Clerk, Community Relations Officer/Deputy City Clerk/Deputy Court Clerk, and Public Works Director are allocated two-thirds to the Water/Sewer Fund and one-third to the General Fund. The Mayor's salary and cell phone allowance are paid from the Water/Sewer Fund during the first 6 months of the year and from the General Fund the remainder of the year. Two public works department employees salaries are allocated three-fourths to the Water/Sewer Fund and one-fourth to the General Fund. In addition, while the CFO, City Clerk, Community Relations Officer/Deputy City Clerk/Deputy Court Clerk, and Mayor perform duties related to the park department, none of their salaries are allocated to the Park Fund.
- The city did not retain documentation to support how fuel costs are allocated to various city funds. The CFO indicated she identifies fuel purchases related to police department vehicles on each fuel bill and allocates those costs to the General Fund. Any remaining fuel costs are split 75 percent to the Water/Sewer Fund and 25 percent to the Park Fund. No fuel costs were allocated to street funds during the period reviewed.
- The city had no documentation to support the allocation of some payments. The city paid \$14,500 for new backhoes from the Water/Sewer Fund; however, the Public Works Director indicated the backhoes are used by the water, sewer, and street departments. The city allocated \$4,300, \$2,150, and \$15,417 to the General, Park, and Water/Sewer Funds, respectively, for audit services during 2009.

To ensure restricted funds are used for intended purposes, the city should allocate disbursements to city funds based upon specific criteria, such as the number of hours worked by each employee or fuel costs incurred by vehicles and equipment used on specific areas or projects, and retain documentation to support these allocations.

## 8.3 Restricted COPS proceeds

Park COPS proceeds totaling \$7,944 were used for a sewer system project not related to the construction of the aquatic center. COPS proceeds are restricted by COPS covenants to be used only on the construction of the aquatic center.



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## Recommendations

The City of Willard Board of Aldermen:

- 8.1 Determine the amount of restricted monies in the General Fund and establish separate funds or a separate accounting of these monies as required by state law and city ordinance.
- 8.2 Ensure salaries and other disbursements are properly allocated to the applicable city funds and allocations are supported by adequate documentation.
- 8.3 Ensure future restricted COPS proceeds are used as intended and adjust the balance of the amount due to the Water/Sewer Fund from the Park Fund by \$7,944.

## Auditee's Response

*The City of Willard Board of Aldermen provided the following written responses:*

- 8.1 *Separate accounts are in place for the receipt of the restricted funds. We will review the procedures to track the remaining balance of these restricted funds.*
- 8.2 *All salaries and disbursements are being reviewed to ensure correct allocation to the various funds. Reviews of personnel and their duties are being done by department heads.*
- 8.3 *The COPS proceeds which were incorrectly drawn will be adjusted as due to the Park Fund. At the time of this error, two different COPS were in process. The withdrawal form used was incorrect.*

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## 9. Park Department Controls and Procedures

Concerns relating to park department sponsorships and advertising, receipts, and concession inventory were noted. The park department processes gate and concession receipts, rental fees, sponsorship and advertising fees, and other miscellaneous receipts of approximately \$413,000 annually, according to city accounting records.

### 9.1 Sponsorships and advertising

The city has not developed formal policies and procedures relating to park department sponsorship and advertising fees. Currently, the city contracts with a local manufacturer to sponsor all park teams for \$9,000, and the city charges advertising fees to area businesses for signs at sporting events. These fees are \$400 for the first year and \$240 each year after. The city also charges \$125 and \$200 for half page and full page advertisements, respectively, which are included in the parks and recreation program guide published twice a year. To ensure sponsorship and advertising fees are handled properly and approved, the city should establish written procedures and requirements.



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9.2 Park department receipts

Concerns were noted regarding park department receipt records and procedures related to receipts.

- Numerous park department employees collect monies at various park events and are not bonded or covered by a blanket insurance policy. Failure to properly bond or insure individuals who have access to funds exposes the city to risk of loss.
- In March 2009, the city adopted new concession prices; however, as of May 2010, the park department had not updated the cash registers with the new prices resulting in differences in amounts collected and recorded. To ensure correct amounts are charged and collected for concession items, cash registers should be updated for any price increases adopted.

9.3 Park department concession inventory

Park department inventory records and procedures need improvement. According to city records, the park department spent approximately \$42,000 for concession items during the year ended December 31, 2009.

- Inventories of concession items sold on cash register tapes are not reconciled to beginning and ending inventory counts conducted at the close of each sporting activity, and differences were noted at the time of our cash counts. To ensure concession receipts and inventories are properly tracked at each sporting event, a reconciliation of items sold and the inventory counts conducted should be performed, and any differences resolved.
- The park department allowed employees to take concession items from its inventory at the recreation center and pay for the items consumed based on the honor system. No record of items taken/consumed was maintained and a bucket was maintained at the park department for employees to place monies owed. During a cash count conducted on May 20, 2010, \$37 was on hand. We also noted a park department employee paid \$60 on May 18, 2010, for concession items consumed. The employee indicated he typically repaid the city around pay day for any concession items consumed. To account for concession receipts and inventory properly, employee purchases should be tracked and paid for at the time of consumption.

Recommendations

The City of Willard Board of Aldermen:

- 9.1 Establish written procedures and requirements for handling and approving sponsorship and advertising fees.
- 9.2 Ensure changes are made to park department cash registers for any concession price increases. In addition, the Board should maintain



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bond or insurance coverage for all employees with access to city assets.

- 9.3 Ensure a reconciliation of concession items sold to inventory counts is conducted, and employee purchases are tracked and paid for at the time of consumption.

## Auditee's Response

*The City of Willard Board of Aldermen provided the following written responses:*

- 9.1 *We agree.*
- 9.2 *Cash registers have been checked and prices for concessions corrected. The bond coverage is being reviewed to ensure all cash handlers are covered.*
- 9.3 *The honor system for employee concession purchases has been discontinued. All concessions are paid at the time of purchase. Concession inventories are now reconciled at close out with another reconciliation also being conducted at the next open against the previous close out.*

## 10. Meeting Minutes and Ordinances

The city did not ensure compliance with the Sunshine Law and has not adopted several necessary ordinances.

### 10.1 Meeting minutes

Several concerns were noted regarding the handling of closed meetings.

- Meeting minutes were not sufficient to demonstrate how some issues discussed in closed meetings were allowable under the Sunshine Law. These issues included compensation of the Board of Aldermen, providing cellular telephones to the Board of Aldermen, additional duties and responsibilities of the Court Clerk, and obtaining a loan to make COPS payments on the aquatic center.
- Open meeting minutes did not always document the specific reasons for closing a meeting.
- Closed meeting minutes did not always include sufficient detail of matters discussed. For example, closed meeting minutes indicated pending lawsuits were discussed, but no other details were included in the closed meeting minutes.

To ensure compliance with state law, the Board should restrict discussion in closed sessions to the specific topics listed in the Sunshine Law, Chapter 610, RSMo; document the specific reasons for going into closed session; and adequately document discussions held in closed meetings.



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## 10.2 Ordinances

The city has not adopted ordinances to adequately establish the compensation for some city officials and employees.

- The city has not adopted ordinances to establish the compensation of the Mayor, Director of Development, Director of Emergency Management, City Prosecutor, Director of Public Works, Director of Parks, and Police Chief.
- While the city has adopted an ordinance addressing the compensation of the City Treasurer/CFO, the ordinance has not been updated for salary increases approved by the Board.

Since ordinances represent legislation passed by the Board of Aldermen to govern the city and its residents, it is important the ordinances be maintained in a complete and up-to-date manner. Sections 79.270 and 79.290, RSMo, require the Board of Aldermen to fix the salaries of all city officials and employees by ordinance.

## Recommendations

The City of Willard Board of Aldermen:

- 10.1 Ensure only allowable topics are discussed in closed meetings, the specific reasons for closing a meeting are documented, and closed meeting minutes include the information necessary to provide complete records of all significant matters discussed.
- 10.2 Establish the compensation of all city officials and employees by ordinance, and ensure ordinances are updated for any Board decisions.

## Auditee's Response

*The City of Willard Board of Aldermen provided the following written responses:*

- 10.1 *The City recently updated the existing ordinance that relates to the Sunshine Law and agenda items. The City Clerk places the state statute and the item number that relates to the reason for closing a meeting on the agenda for each meeting. The City Clerk has discussed with the City Attorney the legal disclosure of information to be enclosed on the closed meeting minutes.*
- 10.2 *Ordinances that address the compensation of all employees by ordinance and city officials will be updated effective January 1, 2011, to include the salary increases that go into effect January 1, 2011.*



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## 11. Capital Asset Procedures

Capital asset records are not complete and current. The city's insurance policy values city property at approximately \$10.6 million. We identified a lagoon boat which was not on the city's list of assets and was not insured. Other city property was also not included on the list of assets, and property is not tagged for specific identification.

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

## Recommendations

The City of Willard Board of Aldermen ensure property records are maintained that include all pertinent information for each asset such as tag number, description, cost, acquisition date, location and subsequent disposition. Property records should be compared to the city's insurance coverage. The Board should also properly tag, number, or otherwise identify all applicable city property.

## Auditee's Response

*The City of Willard Board of Aldermen provided the following written response:*

*Department heads are now required to maintain a current inventory of all equipment and supplies. This inventory will be submitted every quarter to the insurance carrier for reconciliation. Assets are currently being tagged by the public works department. This process will be expanded to include all other departments with expanded information included on the tags.*

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# City of Willard

## Organization and Statistical Information

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The City of Willard is located in Greene County. The city was incorporated in 1949 and is currently a fourth-class city. The city employed 36 full-time employees and 32 part-time employees on December 31, 2009.

City operations include law enforcement services, utilities (water and sewer), street maintenance, and park services.

### Mayor and Board of Aldermen

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 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen at December 31, 2009, are identified below. The Mayor was paid \$200 per month during January and February 2009, and \$300 per month the remainder of the year. The Mayor was also paid a cellular phone allowance of \$30 per month from January to July 2009, and \$50 per month the remainder of the year. Members of the board of aldermen were not compensated during the year ended December 31, 2009.

Jamie Schoolcraft, Mayor  
Paul Hood, Alderman  
Doug Johnson, Alderman  
Bryan Vincent, Alderman  
Pat Lloyd, Alderman  
Richard Simpson, Alderman  
Louie Amodeo, Alderman