



Thomas A. Schweich

Missouri State Auditor

City of Peculiar



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Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Peculiar

Utility System Controls and Procedures

The city does not reconcile some utility system monthly reports and could not explain discrepancies. The city was unable to account for a \$1,093 difference in the beginning balance on the July 2011 summary billing register, compared to the ending balance from the previous month's report. In addition, the city could not explain why the total of all utility payments recorded and deposited in July 2011 was \$829 more than the total payments on the monthly payment/credit recap report. The city does not reconcile the list of utility deposits held by the city to the balance of the utility deposits accounts, and the city does not consistently transfer these funds to the Enterprise Fund's collection account when a deposit is applied to a final bill. The city does not conduct a review of the actual adjustments to the utility system after they are made, and the utility clerk who posts the adjustments also proposes the adjustments and collects utility payments. The city should separately account for water, sewer and trash transactions instead of accounting for them all in the Enterprise Fund, so it can ensure that utility receipts are used only to fund operations of the respective utility services and rates are appropriately set to cover all applicable costs. A disconnect report is generated by the utility computer system each month, but this report is not retained or reviewed. The board or an independent person should compare the computerized disconnect report to the list prepared for city workers to ensure all accounts are properly included.

Budgets and Financial Reporting

City budgets do not contain all elements required by state law. The city did not approve fourth quarter budget amendments until well after the end of the fiscal year, and it overspent the Road and Street Fund and West Growth Fund budgets during the 2 years ended September 30, 2011. The city is not properly tracking and recording various restricted monies. The city deposits state motor vehicle-related monies and law enforcement training monies into the General Fund and does not track them separately.

Payroll Controls and Procedures

The city has not established an ordinance to set the term of office for the City Clerk, as is required by state law. The city currently pays Aldermen \$200 per month and pays the Mayor \$400 per month, but the ordinance has not been updated since 1998 and still indicates that Aldermen are to be paid \$50 per month and the Mayor \$100 per month. The City Clerk received a 4 percent raise (\$1,415) in October 2011, but Section 79.270, RSMo, states that an officer's salary shall not change during his/her term.

Park Development and Funding

The city issued certificates of participation to purchase 66 acres of land approximately 10 years ago, but it has done no real work toward developing the land into a park, and the majority of the Park Fund revenue is spent on maintaining existing city parks. The city currently pays \$28,000 per year in interest on the debt, and principal payments will begin in 2019, initially at \$40,000 per year but increasing to \$80,000 per year. The city has no documented plan for how the Park Fund will be able to afford to maintain the existing parks, make required principal and interest payments on the debt, and fund the development of the future park.

Capital Assets

Capital asset records are not complete. Property is no longer tagged for specific identification, and annual physical inventories are not performed.

In the areas audited, the overall performance of this entity was **Fair**.*

American Recovery and
Reinvestment Act
(Federal Stimulus)

The City of Peculiar did not receive any federal stimulus monies during the audited time period.

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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City of Peculiar

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THOMAS A. SCHWEICH

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Peculiar. We have audited certain operations of the city in fulfillment of our duties. The city engaged Troutt, Beeman & Co., P.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended September 30, 2011. To minimize duplication of effort, we reviewed the CPA's audit report. The scope of our audit included, but was not necessarily limited to, the year ended September 30, 2011. 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 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 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 (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) 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 Peculiar.

An additional report, No. 2012-14, *Seventeenth Judicial Circuit, City of Peculiar Municipal Division*, was issued in February 2012.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	Regina Pruitt, CPA
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In-Charge Auditor:	Lori Bryant

City of Peculiar

Management Advisory Report

State Auditor's Findings

1. 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, utility services have been billed properly, and utility user charges are set at the appropriate level to cover the cost of providing the related services.

1.1 Reconciliations

The city does not reconcile the ending balance of the summary billing register, plus current month's late charges, to the beginning balance of following month's billing register. We compared the ending balance of the June 2011 summary billing register to the beginning balance on the July 2011 summary billing register and identified discrepancies. After adjusting for known reconciling items, which for July 2011 were late charges, the beginning balance on the July 2011 summary billing register was \$1,093 less than expected. In addition, the city does not compare the total amount received and recorded on daily transaction reports to the monthly payment/credit recap report. We compared the total of all utility payments recorded and deposited for July 2011, approximately \$186,500, to the total shown as received on the payment/credit recap report for July 2011 and found the daily transactions report total was \$829 more than the total payments on the monthly payment/credit recap report. The city is unsure what caused the differences between the various reports. Failure to reconcile reports monthly could result in improper billing amounts to customers and incorrect information in the city's financial statements.

Monthly reconciliations of the summary billing register balances and payment/credit recap reports to daily transaction reports are important to ensure monthly utility billings are accurate and all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis.

1.2 Utility deposits

A list of utility deposits held by the city is not reconciled monthly to the balance of the utility deposits accounts. As of September 30, 2011, there was a balance of \$230,550 in the utility deposits accounts, but the computer system indicated deposits should be \$191,232. The difference is caused by the city failing to transfer some of the utility deposits to the Enterprise Fund's collection account when a customer deposit is applied to the final bill.

A complete and accurate list of customer deposits should be prepared monthly and reconciled to the cash balance to ensure records are in balance and sufficient funds are available for the payment of all liabilities. Such reconciliations would allow for prompt detection of errors and help ensure the city has transferred the appropriate amounts to the collection account.



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Management Advisory Report - State Auditor's Findings

1.3 Adjustments Adjustments

Although the Mayor reviews and approves proposed adjustments to the utility system, a subsequent review of the actual changes made to the utility system is not performed. The utility clerk, who submits the proposed adjustments for approval, also collects utility payments and posts the adjustments to the computer system. To ensure all adjustments are valid and accounted for properly, a subsequent review of all changes made to the utility system by an independent person should be performed and documented.

1.4 Utility operations

The city does not maintain separate funds for the financial activity of its water, sewer, and trash operations. Currently, water, sewer, and trash transactions are accounted for in the same fund, the Enterprise Fund. The city does track receipts and most disbursements by activity; however, accumulated balances of the respective utility operations are not accounted for separately.

The utility operations should be separate accounting entities designed to account for specific city activities. Utility receipts should be used only to fund the operations of the respective utility services. Rates for utility services should be set to cover the costs of producing and delivering the service (including administrative costs), repaying debt, if applicable, and repairing and replacing infrastructure.

1.5 Disconnect report

The Board or an independent person does not compare the list of delinquent utility accounts prepared by the utility clerk to the computerized disconnect report. While a disconnect report is generated by the utility computer system each month, this report is not retained or reviewed. The utility clerk exports the report to a spreadsheet where the accounts are sorted by address to aid the city workers who turn off the individual meters. The Board or other independent person should compare the computerized disconnect report to the list prepared for city workers and document its approval to provide assurance all accounts were properly included in the disconnect list given to city workers.

Recommendations

The Board of Aldermen:

- 1.1 Ensure daily collection reports are reconciled to the monthly payment/credit report and the ending balance of the summary billing register is reconciled to the beginning balance on the next summary billing register. Any differences should be followed up on and resolved.
- 1.2 Ensure customer deposits are reconciled to the cash balance and deposits applied to final billings are appropriately transferred to the collection account monthly.



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- 1.3 Ensure approved adjustments are compared to actual changes made to the utility system.
- 1.4 Establish separate funds to account for the specific utility operations or maintain records in a manner to account for the receipts, disbursements, and accumulated balances of the separate activities. Additionally, the city should establish the proper balance of the separate funds and maintain the separate balances in the future.
- 1.5 Ensure the disconnect report generated by the computer system is provided to the Board each month. In addition, the Board or an independent person should compare the computerized disconnect report to the list prepared for city workers and document approval.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 1.1 *The City of Peculiar agrees that there should be a concerted effort to ensure all billings are reconciled. The City reconciles daily in the utility department to ensure that all accounts are current. The comparisons in reports that are noted in the Auditor's report are due to system software reports that are not able to grab all data requested. There are a series of reasons, such as deposits, credits, and payment plans that affect these numbers that the staff are well aware of. In addition, payments received in the middle of the night over the internet affect these reports as well. The City is working with the utility software company to come up with a report that will identify these exceptions and collate them in their normal daily report.*
- 1.2 *The City of Peculiar agrees that the deposits should be reconciled. The difference noted in the utility deposits is a simple computer transfer from the deposit fund to the enterprise fund. The Business Office has been making the monthly transfers since October 1, 2011.*
- 1.3 *The City of Peculiar agrees there should be additional control measures to ensure all utility credits given by the Mayor for utility bills are completed as he instructs. The Mayor signs off on all credits individually to ensure that all credits are documented and are on file. Under the recommendation of the State Auditor we will have the Business Office sign off on a monthly credit report generated by the Utility Clerk for a second control measure for the Mayor's approved credits.*
- 1.4 *The City of Peculiar agrees that all appropriate funds should be separated. The City currently tracks all water, sewer and trash*



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funds separately by income and expenditures. The City is able to track all the expenditures and revenues of water, sewer and trash. The problem is in assets and depreciation separation due to prior accounting of bonds and infrastructure constructed in the 1990's that cannot be determined. Those bonds in the 1990's we labeled water/sewer bonds and we cannot determine if funds were separated for those issuances. It would be a guess and possibly inappropriate for us to do so. The City will review those possibilities with the City Controller and City Auditor to allow the Board of Aldermen to determine the possibilities.

1.5 *The City of Peculiar agrees to the additional control measure for the disconnect report. There are very good controls in the Utility Clerk's office as pointed out by the State Auditor and any additional control measures to ensure no theft or misconduct are very important to the City. The Business Office will review those disconnect reports and sign off on those reports as a recommended control measure.*

2. Budgets and Financial Reporting

The city does not comply with state law related to budget preparation, budget amendments, published financial statements, or tracking and reporting restricted monies.

2.1 Budget preparation

City budgets do not contain all elements required by state law. The budget prepared for the year ended September 30, 2011, did not contain a budget message, beginning available resources and estimated ending available resources, or amounts related to the debt of the city.

Section 67.010, RSMo, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year. A complete budget should include a budget message, beginning available resources, and a reasonable estimate of the ending available resources.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in informing the public about city operations and current finances.

2.2 Overspending budgets and amendments

During the 2 years ended September 30, 2011, the city overspent the Road and Street Fund and West Growth Fund budgets. While budget amendments were approved which included additional appropriations for these two funds, they were approved well after the end of the fiscal year. Budget to actual amounts are monitored regularly by the Board throughout the year and amendments to budgeted amounts are typically prepared quarterly;



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however, the fourth quarter amendment each year is not prepared until well after the end of the fiscal year. Certain line item budgeted amounts for other city funds were also amended for both years, but budgets for those funds had not been overspent. The fourth quarter amendment for the year ended September 30, 2011, was approved by the Board of Aldermen on November 21, 2011, while the fourth quarter amendment for the year ended September 30, 2010, was approved on December 7, 2010.

Section 67.080, RSMo, provides that no expenditure of public monies shall be made unless it is authorized in the budget.

2.3 Restricted monies

The city is not properly tracking and recording various restricted monies. For the year ended September 30, 2011, the city received \$100,000 in state motor vehicle-related monies and \$3,800 in law enforcement training monies. Although these monies are restricted for specific purposes and the city has a Street and Road Fund, they were deposited into the General Fund and the related disbursements and balances were not tracked separately. As a result, the city cannot determine at a point in time what portion of the General Fund represents restricted street or training 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 488.5336, RSMo, requires law enforcement training fees to be used only for the training of law enforcement officers. Separate accounting of restricted monies is necessary to ensure compliance with state law.

Recommendations

The Board of Aldermen:

- 2.1 Prepare annual budgets that contain all information as required by state law.
- 2.2 Prepare and approve budget amendments prior to incurring the related expenditures.
- 2.3 Determine the amount of restricted monies in the General Fund, deposit future state motor vehicle-related monies in the appropriate city fund, and establish a separate accounting of law enforcement training monies as required by state law.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 2.1 *The City agrees that all budgets should include beginning available resources and ending available resources. Those budgets should also include debt of the City as well. The City provides that information every month to the Board of Aldermen in their monthly*



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reports. The City Administrator also provides an annual power point presentation that outlines all the previous year's activities and goals for the next fiscal year by the City. We will add those same monthly and annual documents to the annual budget as recommended.

- 2.2 *The City agrees that there should never be overspending in budgets and the City does not condone it nor does it feel it has by definition. The State Auditor's recommendation is more a procedural issue than a fiscal issue. The City sees this as an easy procedural issue to meet the recommendation of the State Auditor. All funds were accounted for and budget amendments were completed by the Board of Aldermen at their scheduled four amendment meetings of the year. The City will now include the budget amendment with actions of the Board of Aldermen at the time they vote to fund a project as condoned by the State Auditor. Over the past 4 years and currently the revenues are identified properly in the budget as available funds before the Board of Aldermen vote to fund a project. To meet the procedure challenges pointed out; when the Board of Aldermen decide to expend funds for a project budgeted in their revenue; there will be budget amendment language injected in to the resolution or ordinance at that time they are approving the Capital project. We will not wait until the normally scheduled budget amendment session to reflect Board of Aldermen actions.*
- 2.3 *The City agrees that the proper tracking and recording in restricted funds should be completed. The two funds identified by the State Auditor are completed and tracked separately since October 1, 2011.*

3. Payroll Controls and Procedures

The city has not established an ordinance to set the term of office for the City Clerk as required by state law and the ordinance establishing the salaries for the Board of Aldermen and Mayor have not been updated since 1998. Current pay is \$200 per month for Aldermen and \$400 per month for the Mayor, while the most recently updated ordinance indicates the pay for Aldermen is \$50 per month and the Mayor is to be paid \$100 per month. In addition, the City Clerk received a 4 percent raise (\$1,415 annually) in October 2011, which appears questionable since officers are not allowed by law to receive a raise during their term of office.

Section 79.320, RSMo, requires the duties and term of office be established by ordinance for the City Clerk. 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. Also, Section 79.270, RSMo, provides, "...the salary of an officer shall not be changed during the time for which he was elected or



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appointed." Thus, the term of office is significant in determining when pay increases are allowable under state law.

Recommendation

The Board of Aldermen ensure ordinances are updated to establish current compensation for the Mayor and Board of Aldermen, and establish a term and compensation for the City Clerk. In addition, the Board should re-evaluate the propriety of the raise given to the City Clerk.

Auditee's Response

The Board of Aldermen provided the following written response:

The City Attorney has again reviewed RSMO 79.320 and 79.270. He agrees the duties and length of term of office of the City Clerk must be established by city ordinance. The City Attorney will propose a new ordinance that establishes a term of office and rate of compensation for the City Clerk. The new ordinance will also update the duties and responsibilities of the City Clerk. The Auditor's Report notes the existing ordinance that establishes the rate of compensation for the Board of Aldermen and the Mayor is different than the current level of compensation. The City agrees that the old ordinances need to be revised to become consistent with the current rate of compensation and has directed the City Attorney to prepare such an ordinance. These ordinances will be updated by June 2012.

4. Park Development and Funding

The Park Board and Board of Aldermen have not adequately documented plans for the payment of bonds related to the purchase of undeveloped park land or the funding of the improvements planned for the park. In 2002, the city purchased 66 acres to be developed into a park and issued certificates of participation (COPS). The city provided no documentation of cost estimates for the development of the new park or benchmark dates for starting the development, and have done no real work to this point to develop the park. Also, a park sales tax was passed in 2002, which generates approximately \$140,000 annually, and in 2007, the city issued refunding COPS totaling \$635,000 with a lower interest rate to pay off the 2002 series COPS.

Interest payments on the debt are currently \$28,000 annually and the majority of the remaining Park Fund revenue is spent to maintain the six existing city parks. Principal payments on the debt will start in 2019 and will initially be \$40,000 annually and eventually increase to \$80,000 annually. The Park Fund cash balance was approximately \$289,000 at September 30, 2011. There is currently no timetable for when the development of the new park will begin. While a master plan for the park was developed in 2009 and posted to the city website, this plan is simply an architect's drawing of the proposed park.

It is unclear how the Park Fund will have sufficient monies available to make required principal and interest payments on the existing debt, pay for maintaining the existing parks, and provide the monies necessary to fund the



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master plan for the future park. We did not identify any significant discussions regarding these issues while reviewing the minutes of the Park Board or Board of Aldermen for 2011 and 2010.

When undertaking a significant capital improvement project, it is imperative that the Board of Aldermen carefully evaluate funding sources to ensure completion of the project. Discussions and decisions should be clearly and publicly documented to ensure citizens are fully informed on how tax dollars will be spent.

Recommendation

The Board of Aldermen should perform long-term planning related to this capital improvement project and ensure future discussion and decisions are adequately documented.

Auditee's Response

The Board of Aldermen provided the following written response:

The Park Board is working on a series of plans for the new park identified by the State Auditor. The City agrees that there is not enough sales tax that comes in to complete all the plans desired by the Park Board, plus maintain the current parks. The Board of Aldermen will wait for the plans recommended by the Park Board, which are planned for this fall. Once those plans are received the Board of Aldermen is hopeful that it will be very creative and will review the fiscal ability of such plans.

5. Capital Assets

Capital asset records are not complete. The records have only been updated for the public works department and the police department since 2007 and do not include all necessary information such as acquisition cost. Also, property is no longer tagged for specific identification, and an annual physical inventory is not performed.

Adequate capital asset records are necessary to secure better internal control over city property and provide a basis for determining proper insurance coverage on city property. Capital asset records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur, and include a detailed description of the assets such as acquisition cost, descriptions, make and model numbers, and asset identification numbers; the physical location of the assets; and the date and method of disposition of the assets. All capital assets should be identified with a tag or other similar device, and the city should conduct annual physical inventories and compare the results to detailed records.

Recommendation

The Board of Aldermen ensure complete and detailed capital asset records are maintained, assets are properly tagged for identification, and annual physical inventories are performed and compared to detailed records.



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Auditee's Response

The Board of Aldermen provided the following written response:

The City agrees that all capital asset records must be maintained and annually updated. The capital asset records are on track to be finalized by the end of 2012. Currently the two largest departments, Public Works and the Police Department have a current and maintained capital asset list. These lists with the other departments will be merged into a bar code computerized asset list to be maintained and easily updated. Over the past 5 years we believe the City has accomplished significant improvements in many areas of City operations, while dealing with an economic recession, and we will continue to provide great services to our citizens in the future.

City of Peculiar

Organization and Statistical Information

The City of Peculiar is located in Cass County. The city was incorporated in 1953 and is currently a fourth-class city. The city employed 25 full-time employees and 6 part-time employees on September 30, 2011.

City operations include law enforcement services, utilities (water/sewer/trash), recreational facilities (parks), and street maintenance.

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 September 30, 2011, are identified below. The Mayor is paid \$400 per month and members of the Board of Aldermen are paid \$200 per month.

Ernest Jungmeyer, Mayor
Homer Dunsworth, First Ward Alderman
Veronika Ray, First Ward Alderman
Holly Stark, Second Ward Alderman
Donald Turner, Second Ward Alderman
Jim Antonides, Third Ward Alderman
Bob Fines, Third Ward Alderman

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

City of Peculiar did not receive any federal stimulus monies during the year ended September 30, 2011.