

OFFICES OF THE
STATE AUDITOR OF MISSOURI
JEFFERSON CITY

CITY OF SHELDON, MISSOURI
YEAR ENDED DECEMBER 31, 1997

MARGARET KELLY, CPA



Report No. 99-06
January 6, 1999

CITY OF SHELDON, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR’S REPORT	1-2
HISTORY AND ORGANIZATION	3-6
MANAGEMENT ADVISORY REPORT	7-31
SUMMARY OF FINDINGS	8-9

<u>Number</u>	<u>Description</u>	
1.	Community Oriented Policing Services (COPS) Grants	10
2.	Financial Records	11
3.	Budgets and Financial Reporting.....	12
4.	Expenditures	14
5.	City Utilities.....	18
6.	Accounting Controls and Procedures	21
7.	Meetings, Minutes, and Records.....	23
8.	Payroll and Personnel Matters	24
9.	City Property	26
10.	Property Tax Procedures.....	28
11.	Traffic Violations Bureau	29



STATE AUDITOR OF MISSOURI
JEFFERSON CITY, MISSOURI 65102

MARGARET KELLY, CPA
STATE AUDITOR

P.O. Box 869
(573) 751-4824

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Sheldon
Sheldon, Missouri 64784

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Sheldon, Missouri. Our audit of the city included, but was not limited to, the year ended December 31, 1997. The objectives of this audit were to:

1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in the audit of the city.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Sheldon, Missouri.

A handwritten signature in black ink that reads "Margaret Kelly". The signature is written in a cursive, flowing style.

Margaret Kelly, CPA
State Auditor

December 9, 1998

HISTORY AND ORGANIZATION

CITY OF SHELDON, MISSOURI
HISTORY AND ORGANIZATION

The city of Sheldon is located in Vernon County. The city was incorporated in 1881 and is currently a fourth-class city. The population of the city in 1990 was 464.

The city government consists of a mayor and a four-member board of aldermen. The four board members are elected for two-year terms. The mayor is elected for two years, presides over the board of aldermen, and votes only in case of a tie. The Mayor, Board of Aldermen, and other principal officials at December 31 1997, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Actual Compensation for the Year Ended December 31, 1997</u>	<u>Bond</u>
Marilyn Overman, Mayor	April 1999	\$ 360	\$
Tim Bern, Alderman	April 1999	120	
Arthur Sewell, Alderman (1)	April 1999	80	
John Kirby, Alderman (2)	April 1998	120	
Randy Henry, Alderman (3)	April 1998	120	
Tonia Hacker, Collector (4)	April 1999	1,463	10,000
 <u>Other Principal Officials</u>			
Anna Maye Cole, City Clerk		12,315	10,000
Marie McWilliams, City Treasurer (5)		100	
Vacant, Chief of Police (6)		-0-	
Ron Fisk, City Attorney		10,453	
Kirk Davisson, City Building Inspector (7)		-0-	

- (1) Debbie Eads served as Alderwoman prior to April 1997.
- (2) Replaced by Gary Biddlecome who was elected in April 1998.
- (3) Re-elected in April 1998; but Curt Bowman was appointed in August 1998 to replace Randy Henry because he moved out of the city in May 1998.
- (4) Dorothy Mundy served as City Collector prior to July 1997.
- (5) Tonia Hacker was appointed City Treasurer on June 8, 1998.
- (6) Prior to April 3, 1997, the city had an elected city marshal but this position was abolished by voter approval. Charles Steele Jr. was appointed Chief of Police on June 5, 1997, and he served until August 31, 1997. Eric Maus served as acting Chief of Police between August 31, 1997 and December 2, 1997, when he left employment with the city. The position was vacant until July 14, 1998, when Eric Maus returned and was appointed Chief of Police. The city currently pays the Chief of Police a monthly salary of \$1,440.
- (7) Kirk Davisson was appointed Building Inspector on May 8, 1997. He served as City Marshal prior to April 3, 1997.

In addition to the officials listed above, the city has approximately four full-time and two part-time employees.

Assessed valuation and tax rate information for 1997 are as follows:

ASSESSED VALUATION

	<u>1997</u>
Real estate	\$ 1,175,277
Railroad and utility	234,358
Personal property	<u>453,615</u>
Total	\$ <u>1,863,250</u>

TAX RATES PER \$100 ASSESSED VALUATION

General	\$.50
Street lights	.16
Debt service	<u>.85</u>
Total	\$ <u>1.51</u>

The city has a general sales tax of one percent of retail sales within the city.

A summary of the financial activity for the city of Sheldon for the year ended December 31, 1997, is presented on the next page.

	General Fund*	Gas Tax Fund	Fire Department Fund	Park Fund	Traffic Fund	COPS Grant Fund	Total
RECEIPTS							
Property taxes	\$ 31,843	0	0	0	0	0	31,843
Sales taxes	17,017	0	0	0	0	0	17,017
Interest	1,649	562	0	0	28	0	2,239
Motor fuel and motor vehicle fees	0	17,909	0	0	0	0	17,909
Water, sewer, and trash fees	115,213	0	0	0	0	0	115,213
Fines and court costs	0	0	0	0	8,819	0	8,819
Franchise taxes	7,279	0	0	0	0	0	7,279
City licenses	325	0	0	0	0	0	325
Grant proceeds	0	0	0	0	0	47,693	47,693
Donations and fund raising	0	0	4,903	1,247	328	0	6,478
Transfers and other	12,462	0	0	0	1,453	0	13,915
Total Receipts	185,788	18,471	4,903	1,247	10,628	47,693	268,730
DISBURSEMENTS							
Salaries and fringe benefits	54,480	0	0	0	0	44,298	98,778
Telephone	2,378	0	0	0	0	0	2,378
Park, library, and fire	4,477	0	4,614	5,239	0	0	14,330
Garbage hauling	6,354	0	0	0	0	0	6,354
Equipment	3,200	0	0	0	0	0	3,200
Gasoline and oil	6,508	0	0	0	0	0	6,508
Vehicle repairs	1,479	0	0	0	0	0	1,479
Utilities	12,823	0	0	0	0	0	12,823
Insurance	11,272	0	0	0	0	0	11,272
Collector's commission	1,463	0	0	0	0	0	1,463
Water and sewer supplies	13,125	0	0	0	0	0	13,125
Building materials and maintenance	9,411	0	0	0	0	0	9,411
Attorney services	10,453	0	0	0	0	0	10,453
Fire barn lease/purchase	6,185	0	0	0	0	0	6,185
Office supplies	1,678	0	0	0	0	0	1,678
Bond principal and interest	13,408	0	0	0	0	0	13,408
Police expense	9,075	0	0	0	9,514	842	19,431
Streets	0	19,729	0	0	0	0	19,729
Other	6,734	0	0	0	0	0	6,734
Total Disbursements	174,503	19,729	4,614	5,239	9,514	45,140	258,739
RECEIPTS OVER (UNDER) DISBURSEMENTS	11,285	(1,258)	289	(3,992)	1,114	2,553	9,991
CASH, JANUARY 1, 1997	39,449	13,136	159	4,830	106	15,320	73,000
CASH, DECEMBER 31, 1997	\$ 50,734	11,878	448	838	1,220	17,873	82,991

* The General Fund includes activity for the following accounts:

General, Street Lights, Water and Sewer, Street Bond, Sales Tax, Interest, Dog Tag, and Community Building.

MANAGEMENT ADVISORY REPORT

CITY OF SHELDON, MISSOURI
SUMMARY OF FINDINGS

1. Community Oriented Policing Services (COPS) Grants (pages 10-11)

It appears the city owes the federal government approximately \$50,000 for excess reimbursements received. Quarterly financial reports for the COPS grants are not accurately prepared and the city has overstated the amount of allowable grant expenses.

2. Financial Records (pages 11-12)

The city does not properly account for some revenues which are restricted for specific uses and does not properly allocate expenses to the various funds.

3. Budgets and Financial Reporting (pages 12-14)

Improvements are needed in the city's budgeting documents and procedures. The city publishes annual financial statements while state law requires publication of semiannual statements. The city does not obtain annual audits of the combined waterworks and sewer system as required by state law.

4. Expenditures (pages 14-17)

The city has no formal bidding policy. Improvements are needed regarding payment procedures. Some questionable transactions were noted between the city and the City Building Inspector. The city allows employees to use the city's phone for personal use but does not ensure that all personal calls are reimbursed to the city. Forms 1099-Miscellaneous are not filed as required.

5. City Utilities (pages 18-21)

Accounting and bookkeeping duties are not adequately segregated. Utility billings cannot be reconciled to payments received and amounts remaining unpaid. Gallons of water billed to customers is not reconciled to gallons of water pumped by the city. Meter deposits are not identified within the General Fund, and some cash refunds are given for meter deposits. Water and sewer hook-up fees are not established by ordinance or written policy.

6. Accounting Controls and Procedures (pages 21-23)

Receipts are not reconciled to deposits. Bank reconciliations are not prepared for some bank accounts. Improvements are needed regarding the city's petty cash fund. The Mayor signs checks but is not bonded. The City Collector also serves as City Treasurer and the city should consider appointing a separate individual as treasurer. Voided checks are not retained. Improvements are needed in the records documenting rental of the community building. Checks are occasionally signed in advance by the Mayor or City Clerk.

7. Meetings, Minutes, and Records (pages 23-24)

Closed meetings are not always conducted or documented in accordance with state law. Board minutes are not signed. The city has not established a policy regarding public access to city records as required by state law.

8. Payroll and Personnel Matters (pages 24-26)

The duties and compensation of officials and employees and the City Clerk's term of office are not set by ordinance as required by state law. The city needs to evaluate whether it needs a building inspector and if necessary, establish the duties of the building inspector by ordinance. Time sheets are not prepared by some employees. The city should evaluate the duties and compensation of the City Clerk and determine whether she should be a full-time or part-time employee. A complete written personnel policy for all city employees has not been established. Records of vacation, sick leave, and compensatory time were not always accurate. State income taxes are not withheld from any wages or salaries paid by the city.

9. City Property (pages 26-28)

The city does not maintain inventory records for most city property. Usage and maintenance records are not maintained for most city vehicles and equipment. The city needs to maintain complete and accurate records of fuel pumped from its tank, and the city should reconcile fuel purchased to fuel used.

10. Property Tax Procedures (pages 28-29)

Tax book totals are not reviewed or verified by city officials and tax book additions and abatements are not approved by the Board of Alderman. The City Collector does not prepare annual reports summarizing taxes charged, taxes collected and delinquent taxes as required by state law. Delinquent property tax penalties are not charged in accordance with state law.

11. Traffic Violations Bureau (pages 29-31)

Receipt slips are not issued for some monies received and the method of payment is not always indicated on receipt slips. Accounting and bookkeeping duties are not adequately segregated. Traffic tickets were not properly accounted for and records of convictions on traffic offenses are not forwarded to the Missouri State Highway Patrol as required. Some court costs and fees are not charged or distributed in accordance with state law.

CITY OF SHELDON, MISSOURI
MANAGEMENT ADVISORY REPORT

1. Community Oriented Policing Services (COPS) Grants
--

The city receives federal assistance from the U.S. Department of Justice under the COPS Universal Hiring and COPS Making Officer Redeployment Effective (MORE) programs. The COPS Universal Hiring program increases the number of law enforcement officers. The COPS MORE program allows for the purchase of law enforcement equipment to make officers' work more effective. The city normally employs four full-time officers, but two officers resigned in November 1998, and only two officers are currently employed. Our review of these grants noted the following concerns:

- A. Based on city payroll records, the city spent approximately \$141,500 for qualifying police salaries and benefits from May 1, 1995 through October 1, 1998. The city is required to provide 25 percent matching funds, so the city was entitled to receive \$106,125 in grant reimbursements for these qualifying expenses; however, the city requested and received \$156,511 in grant reimbursements. Therefore, it appears the city owes approximately \$50,000 to the Department of Justice for excess reimbursements received through October 1, 1998.

The city opened a separate bank account for the COPS Grant Fund. Grant reimbursements are deposited into this account, and police salaries are paid from this account. However, the city has met part of its matching requirement by paying the related fringe benefits from the city's general account. The balance of the COPS Grant Fund at October 1, 1998, was \$36,730. Therefore, of the \$50,000 owed to the Department of Justice at October 1, 1998, approximately \$13,270 is owed from the city's General Fund.

The Department of Justice also requires the city to prepare quarterly financial status reports and the city also over reported total qualifying expenses on the these reports. The Mayor indicated that she did not fully understand how to prepare these reports, but she now understands and is working on preparing revised reports through the quarter ended September 30, 1998.

The city should prepare complete and accurate records of all allowable salary and fringe benefit expenses and prepare accurate quarterly financial status reports. The city should request reimbursement for only actual and allowable expenses incurred, less the required amount of matching funds, in accordance with the grant agreement.

In addition, the city should evaluate the current financial condition of the city and determine whether the city can afford to employ four full-time police officers, even with 75 percent reimbursement.

- B. During 1997, the city received reimbursement of \$3,696 for various equipment purchased under the COPS MORE program. The reimbursement was the full cost of the equipment. Therefore the city owes the federal government \$924 (25 percent of matching funds). City officials indicated there are no plans to purchase additional allowable equipment in the future.

WE RECOMMEND the Board of Aldermen prepare accurate quarterly financial reports for the COPS grants, retain documentation to support the reported expenditures, and ensure reimbursement is requested for only allowable actual expenditures. The city should repay the \$50,000 in excess reimbursements received. In addition, the board should evaluate its current level of law enforcement services and determine whether it can afford to employ four full-time police officers.

AUDITEE'S RESPONSE

The city has made an amended quarterly report as told to us by the Justice Department. We have \$36,000 in the COPS Grant bank account for salaries that has not been spent. This will be used for salaries before any more monies are requested. The revised quarterly report for September 30, 1998, shows where we have provided the Justice Department with the percentages owed for our 25% on the grant. We will review the city's financial condition to determine if we can afford the officers.

2. Financial Records

The city's financial records are not adequate to ensure restricted revenues are spent only for allowable purposes and do not provide city officials with a means to monitor and evaluate the overall financial condition of the city. While it appears the majority of city revenues are appropriately allocated to the various funds and accounts, costs are charged to the funds and accounts without adequate documentation to support the allocation. The City Clerk indicated expenses are generally paid from the account that has funds available at the time bills need to be paid. In addition, we noted the following expenditures do not appear to be paid from or allocated to the appropriate funds or accounts:

- The City Clerk's compensation (\$12,315 in 1997) is paid from the water and sewer account, but her duties are not exclusively related to the water and sewer system.
- An air conditioner for city hall (\$1,648) was paid from the water and sewer account.
- Lumber and supplies for remodeling city hall and fencing supplies for the city park (total of \$696) were paid from the Gas Tax Fund. Revenues of this fund are legally restricted for street purposes.

In addition, the following conditions were noted regarding inadequate records or procedures for accounting for funds which are legally restricted for specific purposes:

- Law enforcement training fees received by the traffic violations bureau are not separately accounted for. These fees are legally restricted for the training of police officers.
- Trash service fees are deposited into the water and sewer account and there is no separate accounting for trash service expenditures. Trash service revenues represent user fees which should be established to cover the cost of providing trash service. Therefore, a separate accounting of trash service revenues and expenditures is needed.

- A portion of the city's property tax revenues is legally restricted for street lights, and these revenues are deposited in the street light account; however, unrestricted franchise tax revenues are also deposited into this account and the majority of the city's electric bills (which includes electric for city hall, city library, fire barn, water pumps, etc.) are paid from this account. A separate accounting of these restricted property taxes is necessary and only the street light portion of the electric bills should be paid from these property taxes.
- The city has a general obligation bond issue and the city levies property taxes to pay the bond principal and interest. The taxes are deposited into the street bond account and the principal and interest payments are made from this account; however, the balance of this account does not appear accurate based on the actual taxes levied and the principal and interest payments since 1985. From 1985 through 1997, debt service tax revenues appear to have been approximately \$45,000 less than total principal and interest payments so it appears the street bond account should have little or no balance; however, the balance of the street bond account was \$18,504 at July 31, 1998. In addition, the city has approximately \$24,000 in certificates of deposit which are identified as street bond monies that were purchased from general and water and sewer monies.

It is essential the city separately account for various revenue sources and properly allocate expenses to the various accounts and funds. This information is needed for the city to properly establish the user charges for its utilities and trash service. Furthermore, the uses of certain funds, such as the street bond account and Gas Tax Fund, are limited by state law for specified purposes. Therefore, documentation of expense allocation is useful for both management and compliance purposes. In addition, the city should consider combining some funds and accounts for which revenues are not legally restricted, such as the sales tax, interest, dog tag, and community building accounts and the Traffic Fund.

WE RECOMMEND the Board of Aldermen establish funds to properly account for restricted revenues and ensure all costs paid from the funds are appropriate. The board should review the current balances and make other corrections as necessary.

AUDITEE'S RESPONSE

We agree with this recommendation.

3.	Budgets and Financial Reporting
-----------	--

- A. Our review of the city's budgets noted the following concerns:
 1. In March 1998, the city prepared budgets for 1996, 1997, and 1998. In addition to untimely information for 1996 and 1997, Section 67.080, RSMo 1994, provides that no expenditure of public monies shall be made unless it is authorized in the budget.
 2. The budgets do not include actual receipts and disbursements from the two previous years, as required by Section 67.010, RSMo 1994. Amounts for the

two previous years provide a comparison with the budget estimates for the next fiscal year.

3. Budgets were only prepared for the General Fund and not for the COPS Grant Fund, Traffic Fund, Park Fund, Fire Department Fund and the Gas Tax Fund.
4. The budgets do not present a complete financial plan for the ensuing years. The actual and estimated cash and resources available at the beginning and end of the year, respectively, are not included on the budgets. In addition, the 1998 budget does not include estimate revenues and only includes estimated expenditures.
5. The budgets do not include a budget message.

Sections 67.010 to 67.080, RSMo 1994, set specific guidelines for the format, approval, and amendments of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations by fund, and include the beginning available resources and reasonable estimates of the ending available resources. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding fiscal years.

- B. Section 79.160, RSMo 1994, requires the Board of Aldermen to semiannually publish a full and detailed statement of the receipts, expenditures, and indebtedness of the city, in a newspaper in the city. However, the city only publishes financial statements annually. In addition, the receipts and disbursements published for the Park Board Fund for the year ending December 31, 1997, did not agree to the city's accounting records and the activity for the COPS Grant Fund and Traffic Fund was not included. Also, the financial statement did not present the city's indebtedness for a fire truck of \$4,779.

Accurate and complete semiannual published financial statements are necessary to comply with state law and to keep the citizens informed of the financial activity and condition of the city.

- C. The city has not obtained annual audits of the combined waterworks and sewer system. Section 250.150, RSMo 1994, requires the city to obtain annual audits of the combined waterworks and sewer system, and the cost of the audits is to be paid from the revenues received from the system.

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

WE RECOMMEND the Board of Aldermen:

- A. Prepare annual budgets in compliance with state law, and make periodic comparisons between budgeted and actual expenditures.
- B. Publish complete and accurate semiannual financial statements for all city funds as required by state law.
- C. Obtain annual audits of the combined waterworks and sewer system as required by state law.

AUDITEE'S RESPONSE

A&B. We agree with these recommendations.

C. We will consider implementing this recommendation.

4. Expenditures

- A. The city has not established formal bidding policies and procedures. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. The city employs various techniques to solicit bids including requesting bids over the telephone, obtaining literature in the mail, and sending out bid request letters to vendors. However, the following items were purchased for which adequate bid documentation was not available:

Insurance	\$8,983
Gasoline and oil	6,508
Pump repairs	4,336
Vehicle	3,200
Softball diamond improvements	1,916
Lumber and supplies for city	
hall remodeling	1,795
Air conditioner	1,648

Formal bidding policies for major purchases based upon a specified dollar amount would provide a more efficient framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders.

Competitive bidding also helps ensure all parties are given equal opportunity to participate in the city's business. Not only can bids be handled by telephone quotation, but bids can also be obtained by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons for accepting or rejecting bids.

- B. The following weaknesses were noted regarding the city's procedures for the payment of bills:

1. The City Clerk prepares and signs checks and the Mayor also signs the checks; however, the Mayor does not review the related invoices or supporting documentation prior to signing the checks. To ensure all expenditures are properly reviewed and approved, the board should designate the Mayor or a board member to review the related invoices before the checks are signed.
2. Acknowledgment of receipt of goods or services is not always documented on invoices. This is necessary to ensure that all goods or services paid for were actually received.
3. Invoices are not always marked paid or otherwise canceled upon payment. Although no duplicate payments were noted, the possibility that an invoice will be paid twice is increased when invoices are not properly canceled.
4. Vendor invoices or other supporting documentation were not retained for some expenditures. These expenditures included \$1,648 for an air conditioner, \$154 to Walmart for supplies, \$78 for concrete, and \$233 to employees as reimbursements of expenses. All expenditures should be supported by paid receipts or vendor invoices to ensure the obligations were actually incurred and the expenditures represent appropriate uses of public funds.

C. During the review of expenditures, we noted the following questionable transactions involving the City Building Inspector:

1. In December 1996, the city paid to remodel an old garage building owned by the individual who served as City Marshal at that time (currently the City Building Inspector). In exchange for the remodeling expenses, the city was allowed to use the building as an office for the police officers and was allowed to park the city patrol car in the garage. The city used the facility for approximately one year and did not pay any rent for its use. There was no written agreement or contract regarding this arrangement.

The minutes indicate the Board of Alderman approved to pay \$300 toward the remodeling and the former City Marshal was to pay \$280. City records indicate the full \$580 was paid by the city and there is no record that the former City Marshal reimbursed the \$280 to the city.

2. During 1997, the city remodeled the city hall building. The city purchased lumber and supplies from a vendor and the work was performed by city employees and donated labor. The donated labor was provided by the Building Inspector's contracting business. The Building Inspector's business was also building new homes in the area at this time. An invoice from the lumber vendor for \$933 was made out to the Building Inspector's business and the city paid \$763 to the vendor for items on this invoice. There was no documentation regarding why the city paid this amount or why the invoice was made out to the Building Inspector's business.

3. In November 1997, the city received a computer from the Building Inspector. In exchange for the computer, the city installed a sidewalk on the Building Inspector's property and installed sewer lines for an apartment building he was developing. Bids were not solicited for the computer which was valued at \$1,251 and there was no documentation in the board minutes regarding this agreement.
4. In December 1996, the city paid \$500 to the City Building Inspector for a sewer lift station which had been installed by the Building Inspector's contracting business. There is no documentation to support the actual cost of the lift station or why the city paid \$500. Currently, the homeowner is paying costs to maintain the station.

Officers and agents of a city serve in a fiduciary capacity. Personal interests in business matters of the city create the appearance of conflicts of interest. To avoid the appearance of conflicts of interest, all transactions and agreements between the city and the Building Inspector should be fully documented and approved by the Board of Aldermen, and written agreements should be prepared if necessary. In addition, the board should review the above transactions and determine whether the Building Inspector owes the city \$280 for the remodeling expense and \$763 for payment on the invoice which was billed to his business.

- D. In April 1996, the former City Marshal who is now the City Building Inspector, was apparently given authority by the Board of Aldermen to purchase a used patrol car for the city as long as the purchase price did not exceed \$2,000. A car was purchased for \$1,500; however, the city could not provide an invoice or bill of sale for the car purchase. In December 1996, the city apparently sold the car to a local mechanic for parts. This mechanic indicated he sold the car at an auto auction and turned over the entire proceeds to the city. A representative of the auto auction indicated the car sold for \$575, less \$55 for their commission. However, city records indicated only \$248 was deposited into the General Fund for the sale proceeds.
- E. The city allows employees to make personal phone calls. The phone call charges are to be deducted from the employees' paychecks, but some personal phone charges were not deducted. The city does not have a written policy regarding use of telephone for personal use nor does the city maintain a telephone log detailing the calls that have been made and the reason for these calls. A telephone log would help ensure the city pays for only those calls that are necessary to effectively and efficiently operate the city.
- F. The city did not file Forms 1099 with the Internal Revenue Service. The Internal Revenue Code requires payments of \$600 or more for services by nonemployees (other than corporations) be reported to the federal government on Forms 1099. During the year ended December 31, 1997 the city paid one individual \$1,580 for excavating work and \$10,453 to the city attorney.

WE RECOMMEND the Board of Aldermen:

- A. Establish formal bidding policies and procedures. In addition, documentation of the bidding process should be maintained in all cases.

- B.1. Designate the Mayor or a board member to review all supporting invoices before the checks are signed.
- 2. Require evidence of receipt of goods or services on each invoice before making payment.
- 3. Ensure all invoices or other supporting documentation are marked paid upon payment by the city.
- 4. Require adequate supporting documentation for all expenditures.
- C. Fully document all transactions between the city and the Building Inspector and, in the future, enter into written agreements stating each party's duties and responsibilities. The board should review these situations and determine whether \$1,043 is owed to the city from the Building Inspector.
- D. Attempt to obtain documentation to verify both the purchase price and selling price of the patrol car. Any discrepancies between the documented purchase and sale prices and the amounts paid and received for the purchase and sale of the car, respectively, should be investigated.
- E. Adopt a policy prohibiting the personal use of city phones, or ensure all personal phone calls are reimbursed to the city. In addition, the city should maintain a log to document the calls made and reasons for these calls.
- F. Ensure that IRS Forms 1099 are filed as required for prior years as well as in the future.

AUDITEE'S RESPONSE

A,B,2,

3&E. We agree with these recommendations.

B.1.

& F. We will implement these recommendations.

B.4. We have now found all but one of these invoices.

C. We agree that these transactions should have been documented better. Regarding the invoice for building supplies, we reviewed this and determined that these items were used for remodeling city hall.

D. We will attempt to obtain a copy of the title to the car, and it was our agreement that we sold the car to the mechanic for parts for \$248. We will review this situation and attempt to resolve any concerns.

The city provides water, sewer and trash services to approximately 200 customers. Water meters are read around the twentieth of the month and water, sewer, and trash payments become due on the first day of the month and become delinquent the following month. Our review of the billing and receipt process and internal controls revealed the following areas of concern:

- A. The City Clerk calculates amounts due, collects payments, prepares deposits, records receipts, and prepares delinquent notices. No independent review of these procedures is performed.

To safeguard against possible loss or misuse of funds, internal controls should provide for reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. An adequate system of internal controls requires segregation of duties. Since the city has only one administrative employee, segregation of duties may not be feasible. However, the Board of Aldermen should, at a minimum, designate someone independent of the process to perform and document periodic reviews of the records and procedures.

- B. The City Clerk calculates the monthly water charges based on meter readings, and sewer and trash charges are the same amount each month. The city does not mail water, sewer, and trash bills to customers, but customers are required to pay their accounts monthly. The City Clerk does not issue receipt slips for utility payments. In addition, there are no reconciliations between amounts received and amounts deposited.

To properly account for all receipts, prenumbered receipt slips should be issued or receipts should be recorded on a log immediately upon receipt. The method of payment received (cash, check, or money order) should be noted on the receipt slips or receipt log. To ensure all receipts are deposited, the City Clerk should reconcile receipt slips or receipt log amounts, including the composition of receipts, to amounts deposited.

- C. Spreadsheets are maintained for each customer account which includes water, sewer, and trash charges and receipts. Some customer account spreadsheets contained errors regarding payment information and amounts due. In addition, date of payment is not recorded on the spreadsheets. Accurate and complete information regarding amounts due from and paid by each customer is necessary to ensure all amounts due are collected and adequate follow-up on delinquent accounts is performed.

- D. Monthly lists of delinquent customer accounts are prepared by the City Clerk and reviewed by the Mayor; however, the lists do not include delinquent accounts for city officials and employees. For example, in October 1998, the City Building Inspector owed approximately \$200 in delinquent water and sewer fees for his residence and his business, and owed \$250 for a water hookup fee, but these amounts were not on the delinquent list.

To ensure adequate follow-up procedures are performed, all delinquent accounts should be included on the monthly listing.

- E. The city does not perform monthly reconciliations of total charges, payments received, and amounts remaining unpaid for water, sewer, and trash services.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, any errors or discrepancies are detected on a timely basis. Complete documentation of the reconciliation should be retained to support conclusions and any corrections made and to facilitate independent reviews.

- F. The city does not reconcile the total gallons of water charged to customers to the gallons of water pumped. City personnel indicated this was done once several years ago, but documentation of the reconciliation was not maintained.

To help detect any significant water loss on a timely basis and to help ensure all water usage is properly charged, the city should monthly prepare and maintain records of the total gallons of water pumped and reconcile them to the gallons of water charged. Significant differences should be investigated.

- G. City residents are required to pay a meter deposit before receiving water services. Currently, the city collects a \$25 deposit for homeowners and \$50 deposit for renters. A separate receipt book is maintained to record the meter deposits. The monies from the meter deposits are deposited into the water and sewer account. Our review identified the following weaknesses:

1. Meter deposit funds are not identified within the General Fund and are used for operating expenses.

The city needs to identify all customer deposits that should currently be held by the city and keep the listing properly updated. Meter deposits received by the city should be held in trust and not used for operating expenses. The listing of meter deposits should be reconciled to the meter deposits in the account monthly to ensure that sufficient funds are available for the payment of all liabilities.

2. The City Clerk sometimes issues cash refunds for meter deposits when water service is discontinued by the customer; therefore, causing receipts to not be deposited intact. To adequately safeguard receipts and reduce the risk of loss or misuse of funds, deposits should be made intact and refunds should be made by check.
3. Some copies of voided meter deposit receipt slips were not maintained. To ensure that all receipts slips are properly accounted for, all copies of voided receipt slips should be properly defaced and maintained.

- H. The city charges a sewer hook-up fee of \$250 and a water hook-up fee of \$150 plus any excavating work on any new residential or commercial connections to the main trunk line. These fees are not established by ordinance. In addition, the city does not have a written policy regarding procedures for installing water and sewer lines. According to maintenance employees, the city is responsible for installing the main lines and residents are responsible for the lines connecting to their residence.

To ensure equitable treatment of all sewer customers, the board should establish ordinances for water and sewer hook-up fees and written policies regarding the installation of water and sewer lines. The board should ensure the ordinances and policies are followed and all exceptions are approved by the board and properly documented.

WE RECOMMEND the Board of Aldermen:

- A. Adequately segregate the accounting duties of the City Clerk or designate someone independent of the process to perform and document periodic reviews of the records and procedures.
- B. Ensure the City Clerk issues prenumbered receipt slips or maintains a receipt log and reconciles amounts received to amounts deposited.
- C. Ensure complete and accurate customer utility account spreadsheets are maintained.
- D. Ensure all delinquent accounts, including those for city officials and employees, are included on the monthly listing.
- E. Perform monthly reconciliations of the amounts charged to amounts collected and delinquent accounts.
- F. Maintain records of gallons of water pumped and compare to gallons charged on a monthly basis. Any significant differences should be documented and investigated.
- G.1. Maintain a complete listing of meter deposits and periodically reconcile the listing to monies held by the city.
 - 2. Discontinue making cash refunds for meter deposits.
 - 3. Retain all voided meter deposit receipt slips.
- H. Establish water and sewer hook-up fees by ordinance and establish written policies regarding the installation of water and sewer lines. The board should ensure the policies are followed and any exceptions are approved and documented.

AUDITEE'S RESPONSE

*A, G.1,
& 3. We agree with these recommendations.*

B&C. We will review these recommendations.

D&H. We will implement these recommendations.

E. We are working on implementing this recommendation.

F. This had been done in the past but has not been done recently. We agree with the recommendation.

G.2. *We normally issue checks for refunds and will discontinue making cash refunds.*

6. Accounting Controls and Procedures
--

- A. The City Clerk receives and deposits property taxes from the City Collector and franchise taxes, license fees, donations, community building rental fees, and other miscellaneous revenues. The City Clerk does not issue receipt slips or record individual receipts on a receipt ledger. In addition, there are no reconciliations between amounts received and amounts deposited.

To properly account for all receipts, prenumbered receipt slips should be issued or receipts should be recorded on a ledger immediately upon receipt. The method of payment received (cash, check, or money order) should be noted on the receipt slips or ledger. To ensure all receipts are deposited, the City Clerk should reconcile receipt slips or ledger amounts, including the composition of receipts, to amounts deposited.

- B. Bank reconciliations are only prepared for the General Fund checking account and not for the checking accounts for the other city funds. Monthly bank reconciliations are necessary to ensure the accounting records are in agreement with the bank records and to help detect errors on a timely basis.

- C. The City Clerk maintains a petty cash fund of approximately \$300 which is also used as a change fund for city and municipal court transactions. The fund is not operated on an imprest basis. Invoices or receipts are not maintained for expenditures, and a ledger is not maintained to document disbursements. In addition, cash is withheld from city receipts to replenish the fund. The fund is entirely under the control of the City Clerk and no independent review is made of the fund to ensure it is maintained properly.

Invoices should be maintained for all petty cash expenditures and the fund should be operated on an imprest basis, meaning that cash and the invoices should always total the established balance, and checks issued to replenish the fund should equal the amount of invoices. A ledger of all petty cash fund transactions should be maintained. Periodically, the fund should be counted and reconciled to the imprest balance by an independent person to ensure the funds are being accounted for properly, to detect any errors, and to prevent these monies from being misused.

- D. Checks issued on the city's bank accounts require signatures of the City Clerk and Mayor; however, the checks are sometimes signed in advance by the Mayor or City Clerk. In addition, the City Clerk is bonded but the Mayor is not bonded. Signing checks in advance does not allow for proper review of the documentation to support the disbursement and diminishes the control intended by dual signatures. Also the Board of Aldermen should ensure the Mayor is adequately bonded.

- E. The board appointed the City Collector to serve as City Treasurer in June 1998. Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or

any two of these three offices, by the same person at the same time would be incompatible. In addition, the City Treasurer only reviews the General Fund bank reconciliations performed by the City Clerk. The board should review this situation and determine if a city treasurer is needed, and if so, appoint a separate individual to this position.

- F. The City Clerk shreds all voided checks. To ensure all checks are properly accounted for, all voided checks should be properly defaced and retained.
- G. The city does not keep adequate records of individuals and organizations who rent the community building and the accompanying rental payments. The city currently indicates on a calendar when the community building is reserved. The city's records do not document whether rental amounts have been paid or are still due. In addition, varying amounts ranging from \$10 to \$50 have been collected as rental fees and the fees are not established by ordinance.

To ensure all rental fees are collected and properly accounted for, the city should maintain a central record of the dates the community center is rented, the name of the individual or organization who rents it, and the rental fee due. The City Clerk should keep a record of all rental payments received, reconcile payments received to payments due, and follow up on any unpaid amounts. In addition, the fees should be established by ordinance.

WE RECOMMEND the Board of Aldermen:

- A. Ensure the City Clerk issues prenumbered receipt slips or maintains a receipt ledger and reconciles amounts received to amounts deposited.
- B. Ensure bank reconciliations are prepared and retained for all city accounts.
- C. Formally establish an imprest amount for the petty cash fund and ensure the fund is periodically counted and reconciled to the imprest balance by an independent person. In addition, invoices should be maintained for all petty cash expenditures and a ledger should be prepared of all petty cash transactions.
- D. Discontinue the practice of signing checks in advance, and obtain bond coverage for the Mayor.
- E. Determine whether a city treasurer is needed and appoint a separate individual to the position, if necessary.
- F. Deface and retain all voided checks.
- G. Establish rental fees by ordinance and ensure records are maintained for all rentals of the community center and ensure all rental fees are collected.

AUDITEE'S RESPONSE

- A-C. *We will implement these recommendations.*
- D. *We have stopped signing checks in advance and will consider bonding the Mayor.*
- E. *We will review this recommendation.*
- F. *This has already been implemented.*
- G. *We will consider implementing this recommendation.*

7. Meetings, Minutes, and Records
--

- A. The Board of Aldermen conducted several closed meetings during the year ended December 31, 1997 and did not document the matters discussed. Without the preparation of closed meeting minutes, there is no evidence that the provisions of the Sunshine Law, Chapter 610, RSMo, regarding these closed meetings, have been followed.

The open meeting minutes do not always document the reasons for going into closed sessions and do not document that a vote was taken to go into closed session. In addition, it is not clearly documented that the final disposition of applicable matters discussed in closed session is made public as required by the Sunshine Law. Although matters discussed at closed meetings were not documented, the Mayor indicated the board appointed a new board member to fill a vacancy, which does not appear to be an allowable closed meeting matter. In addition, the final disposition of certain personnel matters discussed in closed session, such as the appointment of the Police Chief and the Building Inspector's resignation and reappointment, may not have been disclosed to the public within 72 hours as required.

Section 610.021, RSMo Supp. 1997, allows the board to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, and personnel issues, and requires public disclosure of the final disposition of certain matters. Section 610.022, RSMo 1994, requires a closed meeting, record, or vote be held only for the specific reasons announced publicly at an open session and requires a vote of the board to go into closed session. In addition, this law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote.

- B. The board minutes are prepared by the City Clerk, but the minutes are not signed. The board minutes should be signed by the City Clerk as preparer and by the Mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- C. The city does not have a formal policy regarding public access to city records. A formal policy regarding access to city records would establish guidelines for the city to make records available to the public. This policy should establish a person to

contact and an address to mail requests for access to records. Section 610.023, RSMo 1994, lists requirements for making city records available to the public.

WE RECOMMEND the Board of Aldermen:

- A. Ensure minutes are prepared for all closed meetings and ensure only legally allowable, specified subjects are discussed in closed session. In addition, the board should hold a vote to go into closed session, state the reasons for going into closed session, and publicly disclose the final disposition of applicable matters discussed in closed session, as required by state law.
- B. Ensure board minutes are signed by the City Clerk and the Mayor to attest to their completeness and accuracy.
- C. Establish formal written policies and procedures regarding public access to city records.

AUDITEE'S RESPONSE

- A. *This has already been implemented.*
- B. *We will implement this recommendation.*
- C. *We agree with this recommendation.*

8. Payroll and Personnel Matters

- A. Compensation and duties of city officials and employees, including the City Attorney, are not set by ordinance. Also, the city has not adopted an ordinance establishing the term of office for the City Clerk. Section 79.270, RSMo 1994, states the board of aldermen shall have the power to fix the compensation of all city officials and employees by ordinance and the salary of an official shall not be changed during the time for which he was elected or appointed. Section 79.290, RSMo 1994, requires the duties of city officials shall be prescribed by ordinance. Section 79.320, RSMo 1994, requires the term of office of the City Clerk be fixed by ordinance.

To ensure compliance with state law and to avoid misunderstandings, the board should adopt ordinances which specify the duties and compensation of all city officials and employees and the term of office of the City Clerk.

- B. The city has appointed an individual as City Building Inspector; however, the city has no building codes and does not require building permits. The Building Inspector receives no official compensation, and city officials indicated he inspects old vacant city buildings; however, this position has not been established by ordinance. The city should evaluate the need for a building inspector, and if necessary, establish the duties and compensation by ordinance.

- C. The City Clerk and the maintenance employees do not prepare time sheets or daily activity logs. Time sheets are necessary to document hours actually worked, substantiate payroll expenditures, and provide the board with a method to monitor hours worked.
- D. The City Clerk is considered a part-time employee. For 1997 and 1998, the City Clerk is paid a base monthly salary of \$550 for working the 1st through the 10th days of each month. Additional hours worked by the City Clerk are paid at \$7.85 per hour (\$7.50 per hour for 1997). The following represents the annual payments to the City Clerk for her base salary and for additional hours worked from 1994 through 1997:

	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
Base compensation	\$ 6,600	5,880	5,880	4,920
Hourly compensation	<u>5,715</u>	<u>5,348</u>	<u>3,273</u>	<u>760</u>
Total	<u>\$12,315</u>	<u>11,228</u>	<u>9,153</u>	<u>5,680</u>

The hourly compensation of the City Clerk has increased substantially since 1994; however, as noted in Part C. above, the City Clerk does not prepare time sheets and does not retain other documentation of her additional hours worked. The City Clerk indicated her hours have increased mainly because of her duties as traffic violations bureau clerk of the municipal court.

Because of the significant increase in the City Clerk's additional hourly compensation, the Board of Aldermen should review the City Clerk's current duties and compensation and determine whether the City Clerk should be classified as a full-time or part-time employee. In addition, the board should consider establishing the City Clerk's total compensation as either a set monthly salary or as an hourly wage for each hour worked.

- E. The city has four full-time police officers, one full-time and one part-time maintenance employee, one part-time animal control officer, and one part-time City Clerk. The city has established a personnel policy for the police officers and maintenance employees but has not established a policy for the City Clerk. Also, the policies that are established do not address issues such as overtime, compensatory time, part-time employee status, and other personnel issues.

A comprehensive written personnel policy for all employees is necessary to ensure proper compensation for leave earned and taken, equitable treatment among employees, and the avoidance of misunderstandings.

- F. The city does not maintain accurate records of vacation and sick leave earned, taken, or accumulated for each employee. The Mayor keeps a listing of vacation and sick days taken for the maintenance employees and the police officers. However, the listings did not always agree to payroll records documenting payment for vacation or sick leave.

Adequate documentation of vacation and sick leave earned, taken, and accumulated is necessary to ensure employees are properly compensated for accumulated leave and to ensure leave time used is not in excess of time accumulated.

- G. The city does not withhold state income taxes from the employees' wages. Section 143.191, RSMo 1994, requires employers to withhold state income taxes from wages.

WE RECOMMEND the Board of Aldermen:

- A. Adopt ordinances to set duties and compensation for all city officials and employees and the term of office of the City Clerk, in accordance with state law.
- B. Review the need for a city building inspector and, if necessary, set the duties and compensation of the building inspector by ordinance.
- C. Require the City Clerk and maintenance employees to prepare time sheets, and require police officers to report actual time worked on their time sheets.
- D. Evaluate the duties and compensation of the City Clerk and consider establishing the City Clerk's compensation as either a set monthly salary or an hourly wage.
- E. Establish a complete written personnel policy for all city employees.
- F. Maintain accurate records of vacation, sick leave, and compensatory time in a manner that provides a complete record of the amount of time earned, taken, and any accumulated balances.
- G. Ensure state income taxes are properly withheld and remitted for any wages or salaries paid.

AUDITEE'S RESPONSE

- A, B,
& D. We will review these matters.*
- C. This has already been implemented.*
- E. We agree that a personnel policy is needed for all employees.*
- F. We agree with this recommendation.*
- G. We are in the process of implementing this recommendation.*

9. City Property

- A. The city has not prepared and maintained permanent, detailed property records for general fixed assets, including the cost of land, buildings, equipment, and furniture owned by the city. In addition, the city has not prepared and maintained permanent, detailed property records for the water and sewer system. Also, annual physical inventories are not performed. At our request, the city did prepare a listing of city vehicles, but the cost, location of asset, date acquired, and other pertinent information was not always included for each item.

Property records for general fixed assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage.

To develop appropriate records and procedures for general fixed assets and the fixed assets of the water and sewer system, the city needs to undertake a comprehensive review of all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The city should properly record all fixed asset transactions, and ensure the accuracy of the recorded fixed assets. Periodically, the city should take physical counts of its assets and compare to the detailed records.

- B. The city has one police car, four fire trucks, two tractors, one van, one trash truck, one flat bed truck, and a first responder vehicle. Daily usage logs are maintained for the police car, but usage logs are not maintained for other vehicles and maintenance logs are not maintained for any vehicles or equipment.

Logs should be maintained indicating the employee using the vehicle or equipment, the purpose and destination of the trip, the beginning and ending odometer readings, and the operation and maintenance costs. The log should be reviewed by the board to help ensure there is no inappropriate personal use of the city's vehicle or equipment, verify the propriety of fuel and/or repair billings, and identify the need to replace the vehicle or equipment due to excessive maintenance costs.

- C. The city maintains a gasoline tank outside city hall for the city's vehicles; however, the city has not adopted procedures to ensure gasoline is only used for official city business. Gasoline purchases increased from \$3,060 in 1996 to \$6,508 in 1997.

Access to the tank is not limited and all officials and employees have access to the tank. A log is maintained for gasoline pumped which includes the city vehicle which is filled with gasoline, but the log entries do not always include pump readings and gallons pumped, and do not appear to provide accurate information of gallons pumped. The logs are not reviewed and fuel usage is not reconciled to fuel purchased.

To ensure gasoline is used only for official city purposes, access to the tank should be limited only officials and employees who are authorized to use city vehicles. In addition, the pump log should be reviewed by supervisory personnel to ensure the log is complete and accurate. Total gasoline pumped into each vehicle should be periodically compared to vehicle usage records to ensure gasoline usage for each vehicle appears reasonable. Finally, gasoline purchased should be reconciled to gasoline used and significant differences should be investigated.

WE RECOMMEND the Board of Aldermen:

- A. Establish property records for general fixed assets and the fixed assets of the water and sewer system that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.

- B. Require usage and maintenance logs be maintained for all city vehicles and equipment, and perform periodic reviews of the logs.
- C. Limit access to the gasoline tank and ensure complete and accurate fuel pump logs are maintained. Fuel pumped into each vehicle should be compared to vehicle usage records. Fuel usage should be reconciled to fuel purchased and significant differences should be investigated.

AUDITEE'S RESPONSE

- A. *We agree with these recommendations.*
- B. *We have started keeping a log for the maintenance van and will determine if logs are feasible for other city vehicles.*
- C. *We agree that more accurate gas logs should be maintained. The gas purchases increased from 1996 to 1997 because every city vehicle now uses the same pump. Also, at the end of 1997 the gas paid was for gas used already and for a full tank that had not been used. Gas is used only for official city purposes unless on rare occasions an employee, for instance the police, might sell some to a stranded motorist when there is no service stations open or if an employee uses his vehicle for city business. (for instance, driving their personal car to some kind of training)*

10.

Property Tax Procedures

- A. The city's property tax books and tax statements are prepared by Vernon County. The tax books and statements are sent to the City Collector who mails the statements and collects the taxes. The tax book totals are not reviewed or verified by any other city official. In addition, the City Collector makes all additions and abatements to the tax books without review or approval by the Board of Aldermen.

Section 94.290, RSMo 1994, requires the City Clerk to prepare the tax books and charge the City Collector with the amount of taxes to be collected. To ensure compliance with state law and to provide proper segregation of duties over tax book charges and tax collections, the City Clerk should review the tax books, verify the tax book totals, and charge the City Collector with the amount of taxes to collect. In addition, any changes to the tax books (additions or abatements) should be prepared by the City Clerk, approved by the Board of Aldermen, and charged to the City Collector.

- B. The City Collector does not prepare annual reports of tax collections and delinquent taxes. Sections 79.310 and 94.320, RSMo 1994, require the City Collector to make annual reports of tax collections and delinquent taxes.

Detailed annual reports which comply with state law and are classified by type of tax would help provide assurance taxes have been properly collected, written off, or determined to be delinquent. Such a report would summarize all taxes charged to the City Collector, monthly collections, delinquent credits, abatements, and additions.

Without such a report, examined by the Board of Aldermen, any errors or irregularities that might occur are likely to go undetected.

- C. The city does not charge the correct penalty on delinquent taxes. The city currently charges two percent per month up to a maximum of 20 percent per year for each delinquent tax bill. Section 140.100.1, RSMo 1994, currently provides a penalty of two percent per month up to a maximum of 18 percent per year for each delinquent tax bill.

WE RECOMMEND the Board of Aldermen:

- A. Require the City Clerk to review the tax books and charge the City Collector with the amount of taxes to be collected. In addition, the City Clerk should prepare and the Board of Aldermen should approve all tax book additions and abatements.
- B. Require the City Collector to prepare detailed annual reports as required by state law which summarize property tax activity and which can be used to facilitate the reconciliation of taxes charged, taxes collected, and delinquent taxes.
- C. Ensure the penalty for the collection of delinquent property taxes is charged in accordance with state law.

AUDITEE'S RESPONSE

A-C. We agree with these recommendations.

11. Traffic Violations Bureau

Court cases for the city of Sheldon are heard by the Associate Circuit Judge at the Vernon County courthouse. The city operates a traffic violations bureau (TVB) to receive payment of fines and court costs at times other than during court. The City Clerk serves as the TVB Clerk.

- A. The TVB Clerk did not issue receipt slips for approximately \$2,600 deposited in 1997. To adequately account for all receipts, receipt slips should be issued for all monies received and their numerical sequence should be accounted for properly.
- B. The method of payment received is not always indicated on the receipt slips and the composition of deposits is not indicated on the deposit slips. As a result, the composition of receipts cannot be reconciled to the amounts deposited. To ensure receipts are deposited intact, the method of payments received should be indicated on the receipt slips and the composition of receipt slips should be reconciled to the composition of bank deposits.
- C. The duties of receiving, recording, and depositing monies are not adequately segregated. Currently, the TVB Clerk performs all of these duties. To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of

receiving and depositing monies from that of recording receipts. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent review of the bank reconciliations and a comparison of TVB receipt slips issued to amounts deposited.

- D. The court has established a log of traffic tickets issued; however, the log is not complete. Approximately 82 out of 300 ticket numbers assigned to the police department were not listed on the log.

Without a proper accounting of the numerical sequence and ultimate disposition of traffic tickets, the police department and the court cannot be assured that all tickets issued were properly submitted to the court for processing. A complete log listing each ticket number, the date issued, and the violator's name would ensure all tickets issued were properly submitted to the court for processing, properly voided, or not prosecuted. In addition, a record should be maintained of the ultimate disposition of each ticket to ensure all tickets have been accounted for properly.

- E. The TVB does not forward any records of convictions on traffic offenses to the Missouri State Highway Patrol (MSHP). Section 302.225, RSMo Supp. 1997, requires records of any plea or finding of guilty on traffic violations under the laws of the state, county, or municipal ordinance to be forwarded to the MSHP within ten days of the conviction date.

- F. We noted the following concerns regarding court costs and fees:

1. The TVB collects \$21 in court costs and fees for each speeding violation in accordance with state law, which includes the \$12 municipal court cost, \$5 Crime Victims Compensation (CVC) fee, \$2 Law Enforcement Training (LET) fee, \$1 Peace Officer Standards and Training Commission (POSTC) fee, and \$1 domestic violence shelter fee. For all other offenses, the TVB collects a total of \$47 in court costs and fees. Municipal court personnel could not explain the reason why \$47 was collected and could not provide any applicable city ordinances or state laws to justify the \$47 amount. Court personnel should review this situation and ensure court costs and fees are collected in accordance with state law.
2. TVB receipt records do not separately identify the CVC, LET, POSTC and domestic violence shelter fees collected. When CVC and POSTC fees are disbursed to the state as required by state law, the TVB Clerk indicated she just counts the number of traffic tickets processed and multiplies the number of tickets by the applicable fee amount. In addition, the TVB has not disbursed any of the domestic violence shelter fees collected. Based on TVB records, it appears approximately \$208 should be distributed to domestic violence shelters as required by state law.

The TVB clerk should maintain records of all court fees collected and ensure all applicable fees are disbursed in accordance with state law.

Most of the conditions noted above were also noted in our prior audit report on the 28th Judicial Circuit, Municipal Divisions, for the two years ended 1994.

WE RECOMMEND the city of Sheldon Municipal Division:

- A. Issue receipt slips for all monies received and account for the numerical sequence.
- B. Record the method of payment on the receipt slips and the composition of deposits on the deposit slips, and reconcile the composition of receipt slips to bank deposits.
- C. Adequately segregate the duties of receiving, recording, and depositing TVB receipts. At a minimum, there should be a documented supervisory review of the reconciliation between receipts and deposits.
- D. Work with the police department to ensure records are maintained to account for the numerical sequence and ultimate disposition of all traffic tickets.
- E. Forward all records of convictions on traffic offenses to the MSHP as required by state law.
- F. Collect and distribute court costs and fees in accordance with state law.

AUDITEE'S RESPONSE

*A,B,
& D. We agree with these recommendations.*

C. We will consider implementing this recommendation.

E. This has already been implemented.

F. We have now distributed the domestic violence shelter fees and we will start charging \$21 court costs for all cases.

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

* * * * *