



Thomas A. Schweich
Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

Village of Deerfield



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Village of Deerfield

Follow-Up Report on Audit Findings

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THOMAS A. SCHWEICH

Missouri State Auditor

To the Honorable Chairperson
and
Members of the Board of Trustees
Village of Deerfield, Missouri

We have conducted follow-up work on certain audit report findings contained in Report No. 2013-066, *Village of Deerfield*, issued in August 2013, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the village about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
 - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
 - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
 - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
 - Not Implemented: Auditee has not implemented the recommendation and indicates that it will not do so.

Our methodology included working with the village, prior to completion of the audit report, to develop a timeline for the implementation of corrective action related to the audit recommendations. As part of the AFTER work conducted, we spoke with village officials and reviewed documents provided to us by the Village Clerk who also serves as a Village Trustee (Trustee/Village Clerk) and during our audit also served as the Village Collector (Village Clerk/Collector). Those documents included Board of Trustee meeting minutes, agendas, monthly financial reports, bank statements, the Trustee/Village Clerk's bond, letters from the Department of Revenue (DOR), the December 2013 check register, and the cleared check image of the payment to the DOR. This report is a summary of the results of this follow-up work, which was substantially completed during March 2014.

Thomas A. Schweich
State Auditor

Village of Deerfield

Follow-Up Report on Prior Audit Findings

Status of Findings

1. Oversight and Management	The Board of Trustees did not provide adequate oversight and management of village operations and financial activities.
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1.1 Meetings and minutes	Village trustees did not attend meetings on a regular basis. In addition, meeting notices and agendas were not prepared, minutes were not adequate, village business appeared to be conducted outside of Board meetings, and a public hearing was not held when setting the property tax levy.
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The village did not have a policy regarding absenteeism by trustees. During the year ended December 31, 2012, a quorum was present for only 3 of 12 monthly meetings, which disrupted the conduct of village business. In addition, the village did not prepare and post notices of meetings and related agendas as required by state law. Also, Board minutes did not document a record of votes taken. The minutes also contained limited documentation of decisions made regarding street repair and maintenance or purchases. This information was also not available in other village records.

Village business appeared to be conducted outside of regular open meetings. Payments for mowing services and insurance were made, but their approval was not documented in meeting minutes, and some of these payments were made in months when no Board meeting occurred. In addition, trustees were informally polled for their input regarding the purchase of a used dump truck. Additionally, there was no evidence a public hearing on the village's proposed property tax rate was held in 2012 or that the tax rate was formally approved by the Board.

Recommendation	The Board of Trustees establish a policy regarding absenteeism by trustees. The Board should ensure notices and tentative agendas for Board meetings are posted and retained, minutes contain all required information, and village business is conducted in public meetings. The Board should hold a public hearing each year to determine and set the tax levy.
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Status	Partially Implemented
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The Board of Trustees has not established a policy concerning absenteeism by trustees. The Trustee/Village Clerk now posts all meeting notices and agendas at the village's community center and retains a copy for the village's records. We reviewed the monthly Board of Trustee's meeting minutes for August 2013 through January 2014. The minutes appeared detailed and contained all required elements; however, a quorum was not present for the August and October meetings. The annual tax rate hearing was scheduled in conjunction with the August 2013 meeting. Due to the absence of a quorum for that meeting, a tax rate hearing was not held for the 2013 tax levy.



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1.2 Public access policy

The village had not adopted a formal policy regarding public access to village records as required by state law.

Recommendation

The Board of Trustees develop written policies regarding procedures to obtain access to, or copies of, public village records.

Status

Not Implemented

The Board has not developed a policy regarding access to or obtaining copies of the village's public records. The Trustee/Village Clerk indicated the Board would discuss such a policy at a future Board meeting.

1.3 Budgets

Annual budgets were not prepared for village funds as required by state law.

Recommendation

The Board of Trustees prepare annual budgets which include all information required by state law, and ensure the budget is formally approved and the approval is documented in the Board minutes.

Status

Not Implemented

The Trustee/Village Clerk indicated a budget was not prepared for the year ended December 31, 2014.

1.4 Financial statements

Semiannual financial statements had not been published or posted as required by state law.

Recommendation

The Board of Trustees publish or post semiannual financial statements as required by state law.

Status

In Progress

The Board did not publish or post semiannual financial statements for the year ended December 31, 2013. However, the Trustee/Village Clerk indicated the Board plans to prepare and publish the financial statements for the 6 month period ended June 30, 2014.

1.5 Disbursements

The village had not established a process for the Board to review and approve village disbursements.

The minutes and supporting documentation did not indicate Board review and approval of disbursements. In addition, the Board only held two meetings in 2012 during which village business was conducted. According to the Village Clerk/Collector payment of expenses was made as needed.

Recommendation

The Board of Trustees review and document approval of all disbursements and supporting documentation.



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Status

Partially Implemented

The Trustee/Village Clerk now prepares a detailed monthly listing of receipts and disbursements that is provided to each trustee at Board meetings. The meeting minutes note the Board's review of the monthly financial report and approval to pay current bills; however, supporting invoices are not reviewed by the Board. The Trustee/Village Clerk indicated he would consider bringing the invoices to the Board meetings.

1.6 Ordinances

Village ordinances were not complete, well organized, or up to date. Many ordinances were old and no longer relevant, but had not been rescinded by the Board. Additionally, the village had not adopted an ordinance for the Village Clerk/Collector's job responsibilities, work hours, compensation, etc.

Recommendation

The Board of Trustees ensure ordinances are maintained in a complete, well-organized, and up-to-date manner, new ordinances are passed when appropriate, and an index of all ordinances passed and rescinded is established. The Board should also establish, by ordinance, the Village Clerk/Collector's duties and compensation.

Status

Not Implemented

The Trustee/Village Clerk indicated no action has been taken regarding the village's ordinances, but the Board would consider the issue at a future date.

1.7 Lease agreement

The village trustees did not properly monitor the lease agreement with the United States Postal Service (USPS), and for the year ended December 31, 2012, the village was underpaid \$413.

Recommendation

The Board of Trustees ensure the village receives all appropriate revenues as provided in contracts, and pursue payment of \$413 from the USPS.

Status

Implemented

The village received a lump sum payment of \$1,652 from the USPS in January 2014 for the underpayment of the lease agreement, which occurred over the course of 4 years. In addition, we reviewed the village's bank statement and verified the correct lease payment amount was received in January 2014.

2. Sales Tax Exemption

The Board Chairman misused the village sales tax exemption letter. He used the village sales tax exemption to purchase equipment on behalf of a private individual. As a result, this individual effectively avoided paying sales tax on the purchase.



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Recommendation

The Board of Trustees should contact the Department of Revenue (DOR) regarding how to resolve this situation and any sales tax due. In the future, the Board should ensure the village sales tax exemption is not used for the benefit of private entities or individuals.

Status

Implemented

The village received a letter from the DOR in October 2013 that indicated a total tax of \$377.18 plus penalties and interest was owed by the village due to the improper use of the village's tax exemption certificate. We verified the village paid the DOR \$377.18 in taxes and \$107.43 in penalties and interest in November 2013. The Trustee/Village Clerk indicated the village would ensure future use of the village's sales tax exemption is in accordance with state law.

**3. Internal Controls,
Records, and
Procedures**

There were significant weaknesses in village internal controls, records, and procedures.

3.1 Segregation of duties

There was no independent oversight or adequate segregation of duties related to the Village Clerk/Collector's activities. A trustee served as the Village Clerk/Collector, and was compensated for these duties.

One person serving as both village clerk and village collector did not allow the segregation of duties necessary for a proper evaluation and review of financial transactions. Also, there was no evidence the Board provided adequate supervision or review of the work performed by the Village Clerk/Collector.

Recommendation

The Board of Trustees consider appointing separate individuals, other than a trustee, to the positions of Village Clerk and Village Collector and segregate the duties of the Village Clerk/Collector to the extent possible. If proper segregation of duties cannot be achieved, timely supervision or independent review of the work performed and investigation into unusual items and variances is necessary. The Board should also consider requiring dual signatures on checks or appointing someone other than the Village Clerk/Collector as the check signer.

Status

Partially Implemented

The Trustee/Village Clerk no longer serves as the Village Collector. However, accounting duties have not been adequately segregated. The Trustee/Village Clerk continues to make all deposits when necessary, write all checks, and maintain all financial records without adequate oversight by the Board. In addition, dual signatures are not required for village checks.



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Follow-up Report on Prior Audit Findings
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3.2 Accounting records

The village did not maintain a current fund ledger showing the beginning balance, monthly receipts by source and disbursements by type, and ending balance. At year-end, the Village Clerk/Collector prepared a manual receipt and disbursement spreadsheet from the bank statements and checkbook register.

The village also had not established a separate fund or separate accounting for motor vehicle-related revenues received from the state, and did not monitor the use of these funds to ensure compliance with state law.

Recommendation

The Board of Trustees ensure a complete financial accounting system is established. Summary financial reports should be prepared documenting monthly receipt sources and disbursement types. This information should be used to compare to budget estimates and monitor village operations.

Status

Partially Implemented

A complete financial accounting system has not been established as current fund ledgers are not maintained throughout the year. Summary financial reports detailing monthly receipt sources and disbursement types are now prepared by the Trustee/Village Clerk and provided to village trustees at the monthly Board meetings; however, this information cannot be used to compare to budget estimates because the village did not establish a budget for 2014.

3.3 Accounting procedures

The village had significant weaknesses in accounting procedures:

- The Village Clerk/Collector did not prepare a receipt log and/or issue receipt slips for monies received.
- The Village Clerk/Collector did not restrictively endorse checks immediately upon receipt.
- The Village Clerk/Collector did not deposit receipts timely.
- The Village Clerk/Collector did not perform bank reconciliations.
- The Village Clerk/Collector did not maintain a current balance in the checkbook.

Recommendation

The Board of Trustees ensure receipts slips and/or a receipt log are prepared for all monies received, checks are restrictively endorsed upon receipt, receipts are deposited timely, monthly bank reconciliations are prepared, and a running checkbook balance is maintained.



Village of Deerfield
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Status of Findings

Status

Partially Implemented

Receipt slips are not issued nor a receipt log prepared for all monies received. The Trustee/Village Clerk indicated that when checks are received they are restrictively endorsed and all receipts are deposited timely. Monthly bank reconciliations are not prepared. We reviewed the village's checkbook register and noted a running balance is now maintained by the Trustee/Village Clerk.

3.4 Wage reporting and withholding

The village did not properly report wages, and withhold employee payroll taxes from or pay the employer share of taxes on compensation paid to the Village Clerk/Collector.

Recommendation

The Board of Trustees ensure the compensation paid to the Village Clerk/Collector is subject to payroll taxes and properly reported on a W-2 form. The village should also contact the Internal Revenue Service and appropriate state agencies for guidance regarding prior years.

Status

Not Implemented

The Trustee/Village Clerk indicated a W-2 form had not been completed to report his 2013 wages. The Trustee/Village Clerk indicated he plans to complete a W-2 form in future years and would obtain additional guidance if necessary.

4. Property Tax

The Village Clerk/Collector needed to improve property tax controls, records, and procedures.

4.1 Method of payment

Although the Village Clerk/Collector made a hash mark next to the tax due when the tax statement was mailed, and recorded the date when monies were received, he did not record the method of payment (cash, check, etc.) on the list of taxes due. As a result, the composition of receipts could not be reconciled to the composition of deposits.

Recommendation

The Board of Trustees require the Village Clerk/Collector to record the method of payment received on his tax list and reconcile the composition of receipts to bank deposits.

Status

Implemented

The village has turned over all property tax collection responsibilities to the Vernon County Collector.

4.2 Timely deposit

The Village Clerk/Collector did not deposit tax collections in a timely manner.



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Recommendation	The Board of Trustees require the Village Clerk/Collector to deposit tax collections in a timely manner.
Status	Implemented The village has turned over all property tax collection responsibilities to the Vernon County Collector.
4.3 Tax statements	Current tax statements sent to village residents were not adequate. The tax statements did not identify the property being taxed, related assessed valuation, or tax levy. The statements only included the total amount due.
Recommendation	The Board of Trustees require the Village Clerk/Collector to include a description of the property being taxed, related assessed valuation, and tax levy on the tax statements.
Status	Implemented The village has turned over all property tax collection responsibilities to the Vernon County Collector.
4.4 Account book and delinquent tax list	The Village Clerk/Collector did not maintain an account book to record property tax charges, additions/abatements, collections, and remaining delinquent taxes, and did not prepare and submit to the Board a list of delinquent taxes each year. Tax records maintained by the Village Clerk/Collector included the property tax list from the county and a list of property owners and taxes due. Although the county list included a description of the property, the assessed valuation, and the tax due, the village list only included the resident's name and tax due. The total taxes charged, added/abated, or collected and delinquent taxes were not summarized.
Recommendation	The Board of Trustees require the Village Clerk/Collector to maintain an account book, and prepare and submit to the Board a delinquent tax list as of January 1 each year. The Board should remit this delinquent list to the county for collection.
Status	Implemented The village has turned over all property tax collection responsibilities to the Vernon County Collector.
4.5 Bond	The Village Clerk/Collector was not bonded, as required by state law.
Recommendation	The Board of Trustees require appropriate bond coverage for all village officials.



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Status	Implemented We verified the village obtained adequate bond coverage for the Trustee/Village Clerk.
5. Disbursements	There were significant weaknesses in the controls and procedures over disbursements.
5.1 Bidding	According to the Village Clerk/Collector, the village did not have a bid policy and typically did not bid purchases, although trustees may have informally checked prices before a purchase was made. However, there was no evidence in minutes or elsewhere in village records indicating any efforts to check prices or any support for vendors selected in those cases. As a result, the village had little assurance that it was receiving fair value for goods and services and no documentation to support decisions made.
Recommendation	The Board of Trustees establish formal written bidding policies and procedures, including documentation requirements regarding the bids or quotes received, and justification for the bid selected.
Status	Not Implemented The Trustee/Village Clerk indicated a bidding policy has not been implemented by the Board because the village makes very few large purchases. In addition, the Trustee/Village Clerk indicated the village has made no purchases exceeding \$1,000 since the release of the audit report.
5.2 Supporting documentation	Adequate supporting documentation was not available for some disbursements.
Recommendation	The Board of Trustees require adequate, detailed supporting documentation be obtained and retained for all disbursements.
Status	Implemented The Trustee/Village Clerk indicated that supporting documentation is obtained and retained for all village disbursements.
5.3 Conflict of interest	Because the minutes did not indicate the discussion and approval of mowing services provided by the Board Chairman's daughter, it was not clear if the Board Chairman voted in the Board's approval to purchases these services from her. This arrangement represented an appearance of a conflict of interest. During the year ended December 31, 2012, the Board Chairman's daughter was paid \$300 for mowing various village properties.
Recommendation	The Board of Trustees ensure village officials who have a conflict or an appearance of a conflict, fully disclose their interest and not vote on matters



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Status of Findings

that involve them personally. That action should be documented in the Board minutes. The Board should also consider adopting a code of conduct for city officials.

Status

Partially Implemented

The Trustee/Village Clerk indicated a code of conduct has not been adopted because the Board Chairman identified in the audit report has resigned from the Board and no similar situations have occurred. The Trustee/Village Clerk also indicated village officials will properly disclose conflicts of interest and refrain from voting on such matters in the future.

5.4 Questionable
expenditure

The purchase of Sam's Club memberships for village officials did not appear to be a necessary or prudent use of public funds. In August 2012, memberships costing \$35 each, were purchased for four trustees; and, instead of a membership, \$35 was paid to the fifth trustee. In addition, a membership was purchased for the Board Chairman's daughter. The village was reimbursed for this membership. According to the Village Clerk/Collector, these memberships were provided to the trustees as a "perk" since they are not otherwise paid for serving on the Board.

Recommendation

The Board of Trustees ensure all disbursements of village monies are necessary and a prudent use of public funds.

Status

Implemented

The Trustee/Village Clerk indicated they no longer provide Sam's Club memberships to Board members.