



CITY OF WILLOW SPRINGS, MISSOURI

YEAR ENDED DECEMBER 31, 1998

**From The Office Of State Auditor  
Claire McCaskill**

Report No. 99-99  
October 25, 1999

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

**Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the City of Willow Springs, Missouri.**

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The City of Willow Springs relies heavily upon the Electric Fund to subsidize other city services. The city does not generate sufficient unrestricted revenue to pay the expenditures incurred for the General Fund, and the board has not developed a plan to operate the fund without this subsidy. The city has not evaluated the possibility of refinancing its current debt.

User fees for water, sewer, and electric services have not been established at levels consistent with the costs of providing those services. Historically, the Electric Fund has generated significant surpluses while the Water and Sewer Funds have operated at a loss. Transfers have been made from the Electric Fund each year to cover losses sustained by the Water and Sewer Funds.

Although the city has reviewed and adjusted electric and water rates, it appears the rates have not yet been set at a level consistent with the costs of providing the services.

Although the city generally solicits bids for significant purchases, adequate bid documentation was not retained for some purchases, including a used bucket truck for \$62,000 and tires for \$3,033. City officials indicate bids were solicited, however, documentation of the vendors contacted and the bids received were not maintained. Written documentation of bids provides evidence that the board has complied with its procurement policy.

The duties of receiving, recording, and depositing monies are not adequately segregated. The City Treasurer currently performs all of these duties. Neither the board nor other personnel independent of the cash custody and record-keeping functions provide adequate supervision or reviews of the work performed by the treasurer. In addition, the board needs to improve procedures regarding the monitoring of cash balances, and documenting its approval of disbursements.

Budgets did not include some information required by state law. Actual expenditures exceeded budgeted amounts. Financial statements were not published semi-annually, and annual financial reports were not filed with the State Auditor's office, as required by state law.

The city does not consistently enforce the business license ordinance.

The city's property records are not up-to-date and city-owned property is not tagged or otherwise identified as belonging to the city.

WILLOW SPRINGS MISSOURI SHEET

CITY OF WILLOW SPRINGS, MISSOURI

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**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
City of Willow Springs  
Willow Springs, Missouri 65793

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Willow Springs, Missouri. The city had engaged Matthew L. James, Certified Public Accountant (CPA), to perform a financial audit of the city for the year ended December 31, 1998. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA. Our audit of the city included, but was not limited to, the year ended December 31, 1998. The objectives of this audit were to:

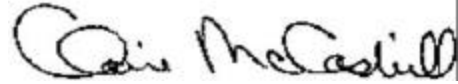
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which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

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

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

A handwritten signature in black ink, reading "Claire McCaskill". The signature is written in a cursive style and is positioned above the printed name and title.

Claire McCaskill  
State Auditor

May 10, 1999 (fieldwork completion date)

## HISTORY AND ORGANIZATION

CITY OF WILLOW SPRINGS, MISSOURI  
HISTORY AND ORGANIZATION

The city of Willow Springs is located in Howell County. The city was incorporated in 1888 as a fourth-class city. The population of the city in 1990 was 2,038.

The city government consists of a mayor and four-member board of aldermen. The four board members are elected in staggered elections for two-year terms. The mayor is elected for a two-year term, 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, 1998, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Actual Compensation for the Year Ended December 31, 1998*</u>
David Wehmer, Mayor (1)	April 1999	\$ 660
Robert E. Peterson, Alderman (2)	April 1999	600
Pat Haney, Alderwoman (3)	April 1999	600
Dawn Biehl, Alderwoman (4)	April 2000	425
Jack Richardson, Alderman (5)	April 2000	50
Jerry Smith, Police Chief/City Marshall	April 2001	25,598
 <u>Other Principal Officials</u>		
Tony Logue, City Administrator/ Economic Development Director (6)		N/A
Sharon Mickey, City Clerk (7)		13,766
Crystal Coatney, City Treasurer (8)		7,544
Larry Foster, Fire Chief		2,115
Paul Collins, Street Superintendent		26,294
Tom Frommel, Electric Superintendent (9)		9,448
Rob Rackley, Wastewater Superintendent		24,903
Rodney Aldridge, Water Superintendent		23,295
Chris Swatosh, City Attorney (10)		6,400

All city employees are covered by a \$50,000 blanket bond.

\* In addition to the above compensation, employees and officials residing within the city limits receive discounted water and electric rates, and employees residing outside the city limits are allowed to deposit trash in the city's trash truck.

- (1) Reelected in April 1999.
- (2) Karen Dugger was elected in April 1999.
- (3) Olive Bowen was elected in April 1999.
- (4) Jim Cox served as alderman until April 1998 when Dawn Biehl was elected.
- (5) Garry Breidt served as alderman until April 1998 when Jack Richardson was elected.
- (6) Appointed in December 1998 to take office January 11, 1999 at an annual salary of \$32,000. His salary was increased to \$37,045 in March 1999. This position was vacant between August 1998 and December 1998. Greg Smith served as City Administrator prior to his

resignation in August 1998. His compensation for the year ended December 31, 1998 was \$23,875.

- (7) Appointed in December 1998 to replace Sharon Oliver, who resigned in December 1998.
- (8) Appointed in August 1998 to replace Sally Ballard, who resigned in April 1998.
- (9) Appointed in July 1998 to replace Gary Barton.
- (10) Appointed in May 1998. John Wiles served as City Attorney prior to May 1998.

In addition to the officials listed above, the city employs approximately 28 full and part-time employees.

Assessed valuation and tax rate information for 1998 was as follows:

ASSESSED VALUATION

Real estate	\$ 7,593,679
Personal	<u>3,737,333</u>
Total	<u>\$11,331,012</u>

TAX RATES PER \$100 ASSESSED VALUATION

General		\$ .46
Library	<u>.14</u>	
Total		<u>\$ .60</u>

The city discontinued levying taxes on real property after 1996.

The city has the following sales taxes; rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	.010	None
Capital improvement	.005	None



MANAGEMENT ADVISORY REPORT

CITY OF WILLOW SPRINGS, MISSOURI  
SUMMARY OF FINDINGS

1. City Finances (pages 9-11)

The city relies heavily upon the Electric Fund to subsidize other city services. The city does not generate sufficient unrestricted revenue to pay the expenditures incurred for the General Fund, and the board has not developed a plan to operate the fund without this subsidy. The city has not evaluated the possibility of refinancing its current debt.

2. City Utilities (pages 11-12)

User fees have not been set at a level consistent with the costs of providing the services and documentation was not available to support the administrative expenses allocated among the various funds.

3. Accounting Controls and Procedures (pages 12-14)

Duties are not adequately segregated. The board does not receive adequate financial information to monitor financial transactions and cash balances. Adequate bid documentation was not retained for some purchases, bids were not solicited in some instances, and some bids were not awarded in compliance with city policy. The city does not have a written agreement with the City Attorney.

4. Compensation (page 15)

The board authorized a salary increase for the Police Chief during his term of office. City employees and elected officials receive discounted utility rates.

5. Budgets and Financial Reporting (pages 16-17)

Budgets did not include some information required by state law. Actual expenditures exceeded budgeted amounts. Financial statements were not published semi-annually, and annual financial reports were not filed with the State Auditor's office, as required by state law.

6. City Business Licenses (pages 17-18)

The city does not consistently enforce the business license ordinance.

7. Fixed Asset Records (page 18)

Current fixed asset records are not maintained, and city-owned property is not tagged or otherwise identified as belonging to the city.

8. Cemetery Records (pages 18-19)

Procedures are not adequate to ensure all cemetery transactions are properly recorded and all monies are remitted to the city.

9. Municipal Division (pages 19-20)

Duties are not adequately segregated. The numerical sequence of summonses and complaint forms was not properly accounted for.

CITY OF WILLOW SPRINGS, MISSOURI  
MANAGEMENT ADVISORY REPORT

<b>1.</b>	<b>City Finances</b>
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- A. The city relies heavily upon Electric Fund revenues to subsidize other city services. In addition to reimbursements of administrative expenses from the Electric Fund, transfers from the Electric Fund to the various city funds were made as follows:

Fund	Year Ended December 31,		
	1996	1997	1998
General	\$ 300,000	350,000	359,900
Water and Sewer	170,000	0	80,000
Recreation	100,000	60,000	66,000
Library	26,000	35,000	38,000
Cemetery	16,000	26,000	40,000
Landfill and Sanitation	0	0	32,000
	\$ 612,000	471,000	615,900

The 1999 Electric Fund budget reflects anticipated transfers to various other funds totaling \$564,699. In addition to those anticipated transfers, the city made a significant transfer to the General Fund in April 1999. In April 1999, the city obtained a \$970,000 grant from the Department of Economic Development for the purchase of the Sequel Corporation land and improvements. The city transferred \$116,260 from the Water Fund and \$376,077 from the Electric Fund to the General Fund, of which \$422,000 served as the city's required matching funds, to cover the payment. The city has entered into a lease agreement with the Sequel Corporation whereby the city is to receive monthly lease payments of \$8,372 for a period of fifteen years. The Sequel Corporation has the option to purchase the property at the end of the lease term for the fair market value less previous payments toward the principal.

Revenues of the Electric Fund represent user charges which are intended to cover the cost of providing the related services. It does not appear appropriate to subsidize other city operations from Electric Fund monies. As a result of this situation, electric rates may be set higher than necessary to recover actual costs and city electric customers are being required to subsidize the cost of economic development and other city services through the payment of their electric bills. The board should ensure lease payments received from Sequel Corporation are credited to the Water and Electric Funds in proportion to each fund's investment in the property.

- B. Without the continued subsidy from the Electric Fund, the city's General Fund would be in poor financial condition. Historically, the General Fund has been budgeted and operated

at a loss. Electric Fund profits provided approximately 27 percent of the total monies available to operate the city's General Fund during 1998.

In addition, the General Fund has significant outstanding debt. In November 1996 the city entered into a lease purchase agreement for the purchase of approximately 72 acres. The lease required a \$51,800 down payment and annual principal and interest payments of \$25,907 for a 10 year period ending January 29, 2006. In September 1997 the city entered into a lease purchase agreement for the purchase of approximately 200 acres. The lease required a \$45,000 down payment and semi-annual principal and interest payments of \$14,472 for a 15 year period ending November 1, 2012. At December 31, 1998, the city owed \$331,072 on these leases and \$20,000 on a lease for the purchase of a fire truck. The unreserved fund balance of the general fund as of that date was \$72,448.

The city continues to incur debt and expenditures from the General Fund although unrestricted revenues are not available for their payment. It appears the Board of Aldermen has made decisions without adequate financial information. As noted elsewhere in this report, budgets adopted by the city did not include comparative data reflecting actual revenues and expenditures for the two previous years. In addition, the board does not review some expenditures and interfund transfers and does not monitor cash balances of the various funds.

The Board of Aldermen needs to closely monitor the ongoing financial condition of the General Fund. In addition, the board should develop a plan which will allow the city to operate without Electric Fund subsidies. If it desires to continue its current level of services, it must increase unrestricted revenues or reduce costs.

- C. The city owed \$331,072 on lease agreements related to real estate purchases. One lease is financed at a 10.25 percent rate of interest, and the other is financed at an 8.25 percent rate of interest. Although the lease agreements allow for the leases to be paid off prior to maturity, the city has not evaluated the potential cost savings associated with refinancing the leases. The rate of interest on recent issuances of general obligation bonds has ranged between 5 and 6 percent, and issuance costs for a similar sized debt issuance typically range from 2 ½ - 5 percent. Assuming a 6 percent rate of interest and a 5 percent issuance cost, the city could realize a savings of approximately \$80,000 over the remaining terms of the leases.

**WE RECOMMEND** the Board of Aldermen:

- A&B. Closely monitor the ongoing financial condition of the various funds. In addition, the board should develop a plan to operate the General Fund without continued subsidies, and limit expenditures and transfers from the Electric Fund to only those which are necessary to operate the city's electric utility operations.
- C. Review the lease agreements and investigate the possibility of refinancing the debt.

**AUDITEE'S RESPONSE**

*A&B. The city is working toward lowering electric rates and the General Fund subsidy. However, we believe it is prudent to continue this process over time and not make these changes all at one time.*

- C. *The city has begun negotiations with the lessor to obtain a more competitive rate of interest.*

2.

## City Utilities

- A. User fees for water, sewer, and electric services have not been established at levels consistent with the costs of providing those services. Historically, the Electric Fund has generated significant surpluses while the Water and Sewer Funds have operated at a loss. As discussed in MAR No. 1, transfers have been made from the Electric Fund each year to cover losses sustained by the Water and Sewer Funds.

The city has recognized this problem and began taking corrective action during 1998. The city requested the Department of Natural Resources (DNR) perform a study of its water rates. Water rates were increased in January 1999 in response to the DNR study. However, the city did not adopt the full increase recommended by DNR. The city did not change the minimum water charge of \$3.40 for the first 1,500 gallons, but the rates for additional gallons over 1,500 doubled. The Mayor conducted a review of electric rates with the help of various other city employees. Electric rates were lowered by approximately 5 percent in January 1999. The Mayor indicated the decrease was intended to achieve more tolerable electric rates while still generating sufficient revenue to subsidize other city services. As noted in MAR No. 1, the Electric Fund currently subsidizes the general operating expenses of the city.

Although the city has reviewed and adjusted electric and water rates, it appears the rates have not yet been set at a level consistent with the costs of providing the services. In addition, the city has not reviewed or adjusted sewer rates to cover the costs of the Sewer Fund. The city should continue to make efforts to establish user fees at a level consistent with the costs of providing only those services. The Electric Fund revenues should not be used to subsidize other utilities or general operating expenses of the city.

- B. The city makes monthly transfers from the various utility funds to the General Fund to cover administrative expenditures incurred in the General Fund which benefit utility operations. Administrative expenditures are allocated to the General (40 percent), Electric (32.4 percent), Water (11.4 percent), Sewer (11.4 percent), and Sanitation (4.8 percent) Funds. Administrative transfers to the General Fund totaled \$127,161 during the year ended December 31, 1998. City officials indicated the percentages used to allocate administrative expenditures have been in use since 1990. However, records were not available to determine how those percentages were established.

The city needs to properly allocate expenses to the various funds to establish appropriate user fees for its utilities. The city should ensure expenditures are allocated to the various funds in proportion to the benefits received from the expenditures. Documentation should be retained to support the percentages used for allocating expenditures.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish user fees for the various utilities at a level that will cover the costs. In addition, Electric Fund revenues should not be used to subsidize other utilities or general operating expenses of the city.

- B. Ensure the percentages used to allocate administrative expenditures to the various funds are reasonable and are supported by adequate documentation.

**AUDITEE'S RESPONSE**

- A. *The city is working toward lowering electric rates and the General Fund subsidy. However, we believe it is prudent to continue this process over time and not make these changes all at one time.*
- B. *We are in the process of implementing this recommendation.*

<b>3. Accounting Controls and Procedures</b>
--

- A. The duties of receiving, recording, and depositing monies are not adequately segregated. The City Treasurer currently performs all of these duties. Neither the board nor other personnel independent of the cash custody and record-keeping functions provide adequate supervision or reviews of the work performed by the treasurer.

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, procedures for adequate independent review should be established.

- B. The board does not adequately monitor cash balances of the various funds. Monthly reports filed with the board do not reflect up-to-date cash balances. In addition, bank statements are not reconciled to the general ledger cash balances. As a result, errors are not detected in a timely manner. The city's CPA had to prepare numerous correcting entries for the year ended December 31, 1998. In addition to errors noted by the CPA, we noted an interfund transfer that was improperly recorded. The board authorized a transfer of \$110,000 from the Electric Fund to the Recreation Fund. However, the monies were actually transferred from the Electric Fund to the Sanitation Fund. The error went undetected by the city.

Bank statements should be reconciled to general ledger balances, and the board should monitor cash balances to ensure transactions have been properly recorded and to detect errors in a timely manner.

- C. The City Treasurer provides the board with monthly listings of bills to be paid. However, the listings do not include some disbursements. For example, payroll related disbursements, contractual payments, sales tax remittances, and electronic funds transfers are not included on the listings. In September 1998, the city paid interest and penalty charges totaling \$605 for untimely deposit of federal payroll taxes. This disbursement also was not included on the listing provided to the board. Although board minutes make a general reference that listings of bills were approved, the listings are not initialed or signed by the aldermen to document approval.

In addition, the board did not review some interfund transfers and adjusting entries. A \$30,000 transfer was made from the Electric Fund to the General Fund to cover a lease payment. Although the board authorized the lease payment to be made from the General Fund, there was no documentation to indicate the board authorized the transfer from the Electric Fund. The city's CPA prepared adjusting entries to reclassify some expenditures and to eliminate negative fund balances in some funds by transferring additional amounts. These entries were recorded in the general ledger, although there was no documentation to indicate the board reviewed or authorized the adjusting entries to be made.

Complete listings of city expenditures and interfund transfers should be reviewed and approved by the Board of Aldermen before payment is made to ensure disbursements represent valid operating costs of the city and that all transfers are appropriate. Listings should be signed or initialed by the aldermen to denote their approval and should be reconciled to actual disbursements. In addition, the board should ensure payroll taxes are deposited in a timely manner to avoid unnecessary penalty and interest charges.

D. The following concerns were noted regarding bidding procedures:

1. Although the city generally solicits bids for significant purchases, adequate bid documentation was not retained for some purchases, including a used bucket truck for \$62,000 and tires for \$3,033. City officials indicate bids were solicited, however, documentation of the vendors contacted and the bids received were not maintained. In addition, city officials indicate there was only one source for the purchase of hot mix for \$28,114 (including labor) and base rock for \$2,122. However, board minutes did not document the reason bids were not solicited in these situations.

Written documentation of bids provides evidence that the board has complied with its procurement policy. Bid documentation should include a list of vendors contacted, a copy of the bid specifications, copies of all bids received, justification for awarding the bid, and documentation of any discussions with vendors. In addition, board minutes should document the circumstances necessitating sole source procurement.

2. The city's procurement policy states that purchases shall be made from the lowest responsible bidder. However, on two occasions during 1997, the city purchased vehicles from a local bidder who was not the lowest bidder; however, the reason for selecting the higher bid was not documented. Complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

E. In May 1998, the city appointed an individual to serve as City Attorney for a fee of \$800 per month. The city has not entered into a written agreement with this individual defining the services to be rendered and the compensation to be paid for legal services.

Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. In addition, Section 432.070, RSMo 1994, requires contracts of political subdivisions to be in writing. Written contracts, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid.



Conditions similar to parts A. and B. were noted in the city's independent audit report.

**WE RECOMMEND** the Board of Aldermen:

- A. Adequately segregate duties or establish procedures for independent review.
- B. Ensure bank statements are reconciled to general ledger cash balances. In addition, the board should require monthly financial reports to include cash balances to allow for proper monitoring of each fund.
- C. Ensure detailed and complete listings of bills, interfund transfers, and adjusting entries are prepared and that the board's approval is documented on the listings. In addition, the listings should be reconciled to actual disbursements. The board should also ensure payroll taxes are deposited timely.
- D. Retain complete bid documentation. In addition, if sole source procurement is necessary, or the low bid is not selected, these circumstances should be documented in the board minutes.
- E. Enter into a written agreement with the City Attorney which defines the services to be provided and the compensation to be paid.

**AUDITEE'S RESPONSE**

- A. *We implemented this recommendation in August 1999.*
- B. *We plan to purchase a new software system which will help implement these recommendations.*
- C. *The interest and penalty being incurred was an isolated occurrence which occurred during a change in personnel. We will implement these recommendations.*
- D&E. *We will implement these recommendations.*

<b>4. Compensation</b>
------------------------

- A. The Board of Aldermen approved a salary increase for the Police Chief during his term of office. The Police Chief was re-elected in April 1997 to a four-year term ending in April 2001. The Board of Aldermen authorized a \$3,000 salary increase effective in January 1999. The Mayor said that the raise was granted because of additional duties that had been assigned to the Police Chief, including that of breathalyser instructor, firearms instructor, and physical fitness trainer. Although the Mayor indicated this was discussed during a board meeting, board minutes contained no documentation of the matter and no ordinance was passed establishing the salary increase and additional duties. The Police Chief said the additional duties were communicated to him verbally.

Section 79.270, RSMo 1994, states that the salary of a municipal officer shall be established by ordinance and shall not be changed during the time for which he was elected

or appointed. Section 79.290 requires that the duties and powers of city officials be established by ordinance. In addition to meeting statutory requirements, establishing duties and compensation by ordinance reduces the potential for misunderstandings.

- B. City ordinance provides for city employees and officials living within city limits to receive discounted electric and water rates. The value of these discounts for an average four-member family totals approximately \$29 per month. Employees living outside city limits are allowed to deposit their trash in the city's trash truck rather than paying for sanitation services. The value of this benefit is approximately \$8 per month. Because the value of these benefits vary with the number of members in each household and whether the employee lives inside or outside of city limits, this does not appear to be an equitable method of compensating employees. In addition, the compensation is not reported on employees' forms W-2. Furthermore, discounting utility rates for city employees and officials interferes with the city's efforts to establish proper user fees for its utilities.

**WE RECOMMEND** the Board of Aldermen:

- A. Document the additional duties (and related compensation) which were assigned during his term of office in a city ordinance. In addition, in the future, the duties and compensation of all city officials should be established by ordinance.
- B. Discontinue the practice of discounting utility rates for city employees and officials.

**AUDITEE'S RESPONSE**

*We will or have implemented these recommendations.*

<b>5. Budgets and Financial Reporting</b>
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- A. The budgets for the years ended December 31, 1998 and 1999, did not include actual revenue and expenditures from the two preceding years. Only the two prior years' budget amounts were included. In addition, the budget for the year ended December 31, 1999, did not include beginning or estimated ending available resources.

Section 67.010, RSMo 1994, requires each political subdivision of the state to prepare an annual budget with comparisons of actual revenues and expenditures for the two preceding fiscal years. Prior year comparisons of actual revenues and expenditures need to be included to help ensure accurate amounts are budgeted. A budget should include appropriate revenue and expenditure estimations by classification and include the beginning available resources and reasonable estimates of the ending available resources in order to present a complete financial picture. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area.

- B. During the year ended December 31, 1998, the city approved expenditures in excess of the budgeted amounts for various funds as follows:

Budgeted	Actual	Actual
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<u>Fund</u>	<u>Amount</u>	<u>Expenditures</u>	<u>over Budget</u>
General	\$1,201,043	1,275,579	74,536
Capital Improvement	94,110	104,118	10,008
Recreation	69,064	77,099	8,035
Cemetery	30,429	37,646	7,217

In addition, some budget amendments were not adequately documented. In one instance, the board authorized a \$30,000 increase in General Fund expenditures to cover a lease payment. However, the increase was not recorded on the budget. In another instance, a \$12,000 increase in General Fund expenditures was recorded on the budget, although no documentation was made to indicate the board approved the amendment.

Section 67.040, RSMo 1994, indicates a political subdivision shall not increase the total amount authorized for expenditures from any fund, unless the governing body adopts a resolution documenting the reasons making the increase necessary and approves or adopts a resolution or ordinance to authorize the expenditures. The board should ensure any budget amendments are properly authorized and adequately documented.

- C. The city does not publish semi-annual financial statements in accordance with state law. Instead, the city publishes financial statements annually after the independent audit is complete. The financial statement for the year ended December 31, 1998, was published on March 17, 1999.

Section 79.160, RSMo 1994, requires the Board of Aldermen to prepare and publish semi-annual financial statements within one month of the end of each six month period. In addition, Section 79.165, RSMo 1994, states the city cannot legally disburse funds until the financial statement is published.

This condition was noted in the city's independent audit report.

- D. The city has not filed annual reports of financial activity with the State Auditor's office as required by state law. A report was submitted for the year ended December 31, 1998. However, reports were not filed for the years ended December 31, 1995, 1996, and 1997. Section 105.145, RSMo 1994, requires the city to file a financial report with the State Auditor's office annually.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure budgets contain all information required by state law.
- B. Ensure actual expenditures do not exceed budgeted amounts. If circumstances require expenditures in excess of amounts budgeted, a formal resolution should be adopted authorizing the additional expenditures and documenting the reasons for such.
- C. Publish semi-annual financial statements in a timely manner.
- D. File annual financial reports with the State Auditor's office as required by state law.

**AUDITEE'S RESPONSE**

*We will comply with these recommendations.*

<b>6. City Business Licenses</b>
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City ordinance requires all persons or firms engaged in business within the city to obtain a city business license. License fees are \$25 and are due January 1 each year. The ordinance provides for a 20 percent penalty to be assessed for delinquent licenses paid after March 1. It further provides for the closure of businesses which fail to comply with the ordinance and for prosecution.

The city does not consistently enforce the business license ordinance. We noted five businesses that paid their 1999 business license fee after March 1, 1999, but were not assessed a penalty. At least two other businesses have not purchased a license at all, but the city has not taken enforcement action. In addition, beauty salons and barber shops are only charged \$15 for business licenses, although there appears to be no basis for the reduced fee.

To reduce delinquencies and ensure equitable treatment of all businesses, the city should enforce the business license ordinance in a consistent manner.

**WE RECOMMEND** the Board of Aldermen consistently enforce the business license ordinance.

**AUDITEE'S RESPONSE**

*We will implement this recommendation.*

<b>7. Fixed Asset Records</b>
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The city's property records have not been updated since February 1998. In addition, periodic physical inventories of city-owned property are not performed, and the city has not tagged or otherwise identified items as belonging to the city. Property records for general fixed assets are necessary to ensure accountability for all items purchased and owned and for accurate financial reporting.

To develop appropriate records and procedures for the city's assets, the city needs to review all property owned by the city. Assets should be tagged for specific identification and recorded in a detailed property ledger at historical cost, or estimated historical cost if original cost is not available. The property ledger should also include a description, acquisition date, location, and subsequent disposal, if applicable.

Because of the inadequate property records described above, the city's financial statements for the year ended December 31, 1998, did not include the General Fixed Assets Account Group which is necessary to conform with generally accepted accounting principles.

This matter was noted in the city's independent audit report.

**WE RECOMMEND** the Board of Aldermen maintain up-to-date property records for general fixed assets that include all pertinent information for each asset, such as tag number, description,

cost, acquisition date, location, and subsequent disposition. In addition, the city should properly tag or otherwise identify all city property and conduct periodic physical inventories for comparison with property records.

**AUDITEE'S RESPONSE**

*We are in the process of implementing these recommendations.*

<b>8. Cemetery Records</b>
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The city maintains two copies of the cemetery map. The City Clerk is responsible for maintaining the copy which is kept at city hall. The cemetery caretaker is responsible for maintaining the copy which is kept at the cemetery. Payments for the purchase of lots and grave openings may be made at either the cemetery or city hall. When a lot is purchased or a grave opening is performed, the caretaker prepares a sales slip which identifies the lot number and the name of the purchaser or the deceased. The caretaker posts the name of the purchaser or the deceased to his copy of the map. The sales slip and any monies collected are then forwarded to the city hall to be recorded on its records.

Because the two maps are not reconciled periodically, the city has less assurance that all lot purchases and grave openings have been properly recorded and monies have been remitted to the city. During our review, we noted several instances where a grave opening was performed but the name of the deceased was not entered on the copy of the map which is kept at city hall. Periodic reconciliations should be performed to ensure all transactions are properly recorded on both copies of the map to help ensure monies have been properly remitted to the city, and to ensure the same lot is not sold twice.

**WE RECOMMEND** the Board of Aldermen establish procedures to ensure all cemetery transactions are properly recorded. In addition, the two maps should be reconciled periodically, and any discrepancies should be investigated.

**AUDITEE'S RESPONSE**

*We will implement this recommendation.*

<b>9. Municipal Division</b>
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A. The Court Clerk performs all duties related to the collection, deposit, recording, and disbursement of fines, court costs, and bonds. Although the Municipal Judge reviews the dispositions recorded on court dockets, independent reviews of the reconciliations between receipts and deposits and of bank statements, including canceled checks and bank reconciliations, are not performed.

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 cash custody from that of recording transactions. If proper segregation of duties cannot be achieved, at a minimum, there should be a supervisory review of the reconciliations between receipts and deposits and of bank statements and bank reconciliations.

- B. The numerical sequence of summonses and complaint forms is not properly accounted for. The Court Clerk maintains logs to account for the issuance of summonses and complaint forms, however, the logs are not complete. Information regarding the issuance of several summonses and complaint forms was not documented on the logs. In addition, sometimes the date of issuance was not recorded on the logs.

Without a proper accounting of the numerical sequences and disposition of summonses and complaint forms, the police department and the municipal division cannot be assured that all documents are accounted for properly and submitted to the court for processing. Logs should be maintained of the books assigned to officers. In addition, logs should be maintained to account for the issuance of each summons and complaint form to ensure all summonses and complaint forms issued were submitted to the court for processing, properly voided, or not prosecuted.

**WE RECOMMEND** the city of Willow Springs Municipal Division:

- A. Segregate duties of cash custody from that of recording transactions and reconciling bank statements. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations between receipts and deposits and a review of bank statements and bank reconciliations.
- B. Work with the Police Department to ensure records are maintained to account for the numerical sequence and ultimate disposition of all summonses and complaint forms issued.

**AUDITEE'S RESPONSE**

*The Municipal Judge provided the following response:*

*I will work with the city to try and implement these recommendations.*

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.

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