



CITY OF NAYLOR, MISSOURI
YEAR ENDED DECEMBER 31, 1999

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

Report No. 2000-127
December 20, 2000
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

December 2000

www.auditor.state.mo.us

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 Naylor, Missouri.

In April 2000, the city paid a total of \$1,450 in severance pay to the former City Clerk and Chief of Police upon their resignation. This appears to represent additional compensation for services previously rendered, and as such, is in violation of the Missouri Constitution.

The city paid \$2,400 to the former Police Chief for the lease of law enforcement equipment during the year ended December 31, 1999 and \$1,374 to a service garage owned by an alderman for repair and maintenance services on city vehicles in July 1998. The equipment rental and the garage services were not competitively bid. The former City Clerk indicated the city did obtain price quotes on the equipment rental; however, no documentation could be located.

Personal interests in business matters of the city create the appearance of conflicts of interest and a lack of independence that could harm public confidence in the mayor and board and reduce their effectiveness. State law prohibits financial transactions between the city and an officer or employee (or spouse, dependent child, or business and corporate interest of the officer or employee) that involve \$500 per transaction or \$1,500 per year unless there had been public notice to solicit proposals and (except for real property) competitive bidding, provided that the bid or offer was the lowest received.

The city pays wage and fringe benefit expenses from the general, water, sewer, and street funds. Records were not available to support the amounts charged to each of these funds.

Salaries of city officials and employees have not been established by ordinance. State law requires the Board of Aldermen to fix the salaries of all city officials and employees by ordinance.

The city exceeded the budgeted disbursement amounts in various funds during the year ended December 31, 1999, such as the General Fund by approximately \$30,000 and the Water Fund by approximately \$13,000. State law requires political subdivisions to keep disbursements within amounts budgeted or adopt a resolution setting forth the budget increase and the facts and reasons for such.

The Board of Aldermen does not review and approve the payment of city expenditures prior to the disbursements being made. In addition, supporting documentation was not maintained for some disbursements.

(over)

YELLOW SHEET

The city received federal assistance from the U.S. Department of Justice under the COPS FAST program to increase the number of law enforcement officers. The City Clerk is responsible for filing quarterly report/reimbursement request for the COPS FAST program. The City Clerk calculated the amounts for reimbursement; however, she did not retain documentation of her calculations or copies of the reports.

The City Collector does not prepare monthly or annual reports of tax collections and delinquent taxes. State law requires the City Collector to make annual reports of tax collections and delinquent taxes.

The minutes of the meetings of the Board of Aldermen did not contain some information required by statute. There were numerous instances where the minutes indicated a motion had passed, but did not indicate the number of votes for and against. Also, the board regularly conducts closed meetings. Minutes were not prepared to document the matters discussed in closed meetings, and board minutes did not always indicate the reasons for closing the meetings.

The duties of receiving, recording, and depositing court receipts are not adequately segregated. The City/Court Clerk performs all the duties related to the collection, deposit, and recording of fines, court costs, and bonds. Receipt slips are not issued for some monies received by mail. The composition of receipt slips issued is not reconciled to bank deposits. Also, various records related to the receipt of court monies could not be located for the period reviewed. In addition, data related to tickets issued was deleted from the computer without copies of the information being retained.

There is no independent oversight or adequate segregation of duties related to the city's utility system. The Utilities Secretary performs all functions related to generating monthly utility bills, receipting, recording, and depositing utility payments, and making credit adjustments.

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, it has not prepared and maintained permanent, detailed property records for the water and sewer system. Also, annual physical inventories are not performed.

CITY OF NAYLOR, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
And
Board of Aldermen
City of Naylor
Naylor, Missouri 63953

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Naylor, Missouri. Our audit of the city included, but was not limited to, the year ended December 31, 1999. The objectives of this audit were to:

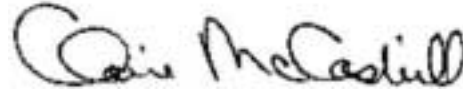
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which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

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



Claire McCaskill
State Auditor

July 28, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	Debra S. Lewis, CPA
In-Charge Auditor:	Heather Thompson
Audit Staff:	Megan Seehafer

HISTORY AND ORGANIZATION

CITY OF NAYLOR, MISSOURI
HISTORY AND ORGANIZATION

The City of Naylor is located in Ripley County. The city was incorporated in 1905 as a fourth-class city. The population of the city in 1990 was 620.

The city government consists of a mayor and four-member board of aldermen. The four members are elected 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, 1999, were:

Elected Officials	Term Expires	Actual Compensation for the Year Ended December 31, 1999
James E. Price, Mayor (1)	April, 2000	\$ 300
Bernard Allen, Alderman (2)	April, 2000	180
Eugene Jackson, Alderman (3)	April, 2000	180
Max Day, Alderman	April, 2001	120
Frank Rigdon, Alderman	April, 2001	120
<u>Other Principal Officials</u>		
Tina George, City/Court Clerk (4)		\$ 16,950
Betty Gilbert, City Collector (5)		1,737
David Kimbrough, City Treasurer (6)		600
David George, Chief of Police (7)		18,000
Don Young, Water/Street Superintendent		21,120
Ben Morrison, Sewer Superintendent		9,600
Judy Wyatt, Utilities Secretary (8)		12,600

- (1) Darla Powell was elected Mayor in April 2000.
- (2) Brad Davis was elected in April 2000 to fill this seat.
- (3) Roy Dawes was elected in April 2000 to fill this seat.
- (4) Tina George resigned as City Clerk in April 2000 and was replaced by Roberta Carter. Roberta Carter resigned in August 2000 and was replaced by Sandra Sams. Sandra Sams resigned in October 2000 and was replaced by Katina Taylor.
- (5) Betty Gilbert resigned as City Collector in April 2000 and was replaced by Kim Jones. Kim Jones resigned in October. The Chief of Police will now serve as City Collector.

- (6) David Kimbrough resigned as City Treasurer in April 2000 and was replaced by Sheila Sullivan. Sheila Sullivan resigned in October 2000 and was replaced by Peggy McElhaney.
- (7) David George resigned as Chief of Police in April 2000 and was replaced by Charles Mays in July 2000.
- (8) Judy Wyatt resigned as Utilities Secretary in September 2000 and was replaced by Kim Jones in October 2000.

The city employed approximately nine full and part-time employees at December 31, 1999. In April 2000, the city disbanded the police department, reducing the number to seven.

Assessed valuation and tax rate information for 1999 were as follows:

ASSESSED VALUATION

Real Estate	\$	1,348,910
Personal Property		<u>476,975</u>
Total	\$	<u><u>1,825,885</u></u>

TAX RATES PER \$100 ASSESSED VALUATION

General Fund	\$.67
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A summary of the financial activity of the city of Naylor for the year ended December 31, 1999, is presented below:

	General Fund	Collector's Fund	Fire Fund	Clutter's Museum Fund	Police Training Fund	Sewer Fund	Sewer Depreciation Fund	Street Fund	Water Fund	Water Depreciation Fund	Municipal Court Fund
RECEIPTS:											
Property Taxes	\$ 0	13,767	0	0	0	0	0	0	0	0	0
Utility franchise taxes	15,351	0	0	0	0	0	0	0	0	0	0
Transportation tax	26,062	0	0	0	0	0	0	7,443	0	0	0
Sales tax	15,859	0	7,429	0	0	0	0	0	0	0	0
Local use tax	2,163	0	0	0	0	0	0	0	0	0	0
Customer receipts	25,621	0	0	0	0	45,262	0	0	41,670	0	0
Grants	19,437	0	0	0	0	0	0	0	0	0	0
Fines and court costs	20,311	0	0	0	0	0	0	0	0	0	0
Interest	599	56	237	376	0	3,403	955	393	1,101	128	
Bonds	0	0	0	0	0	0	0	0	0	0	7,220
Other	1,098	1,018	41	0	500	4,141	0	1,620	1,434	0	0
Transfer in	16,690	0	0	0	446	3,845	12,000	21,159	15,022	900	0
Total Receipts	143,191	14,841	7,707	376	946	56,651	12,955	30,615	59,227	1,028	7,220
DISBURSEMENTS:											
Salaries and fringe benefits	62,000	0	0	0	0	14,150	0	16,702	22,955	0	0
Utilities	3,696	0	487	120	0	6,418	0	0	3,395	0	0
Audit	183	0	0	0	0	183	0	0	213	0	0
Advertising	555	0	0	0	0	108	0	0	73	0	0
Equipment and Supplies	23,675	0	1,887	0	0	11,759	0	3,695	6,166	0	0
Building repairs	0	0	1,326		0	0	0	0	2,208	0	0
Street maintenance and repair	0	0	0	0	0	0	0	1,476	0	0	0
Police expenses	0	0	0	0	508	0	0	0	0	0	0
Trash service	25,051	0	0	0	0	0	0	0	0	0	0
Insurance	9,594	0	0	0	0	9,638	0	0	9,320	0	0
Postage	396	0	0	0	0	346	0	0	345	0	0
Other	6,402	0	60	302	0	661	0	8,474	2,725	0	6,430
Bond principle and interest	0	0	0	0	0	0	0	0	15,022	0	0
Transfer out	21,605	15,000	0	0	0	12,000	6,095	0	1,200	12,772	1,390
Total Disbursements	153,157	15,000	3,760	422	508	55,263	6,095	30,347	63,622	12,772	7,820
Receipts Over (Under) Disbursements	(9,966)	(159)	3,947	(46)	438	1,388	6,860	268	(4,395)	(11,744)	(600)
Cash Balance, January 1,	29,133	3,669	13,815	756	394	7,535	103,218	14,677	18,447	25,370	1,100
Cash Balance, December 31,	\$ 19,167	\$ 3,510	\$ 17,762	\$ 710	\$ 832	\$ 8,923	\$ 110,078	\$ 14,945	\$ 14,052	\$ 13,626	\$ 500

MANAGEMENT ADVISORY REPORT

CITY OF NAYLOR, MISSOURI
SUMMARY OF FINDINGS

1. Expenditures and Related Items (pages 10-11)

Some questionable transactions were noted between the city and various city officials. Improvements are needed regarding payment procedures. The Board of Aldermen does not review and approve the payment of city expenditures prior to the disbursements being made. Supporting documentation is not maintained for some disbursements made by the city.

2. Budgetary Practices and Financial Reporting (pages 12-13)

Improvements are needed in the city's budget documents and procedures. The city exceeded the budgeted disbursement amounts in various funds. The city publishes a semi-annual financial statement; however, the receipts and disbursements published were not complete and/or accurate.

3. Property Tax Procedures (pages 13-14)

The City Collector does not prepare monthly or annual reports of tax collections and delinquent taxes. Improvements are needed regarding the collector's accounting procedures.

4. Water and Sewer System Procedures (pages 15-16)

Improvements are needed regarding the city utility's accounting procedures. Accounting and bookkeeping duties are not adequately segregated. The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts remaining unpaid for water and sewer services.

5. Fixed Assets (pages 16-17)

The city does not maintain fixed asset records for city property. The city does not perform annual physical inventories of all city property.

6. Payroll Procedures (pages 17-18)

Salaries of city officials and employees have not been set by ordinance. The city pays wage and fringe benefit expenses from various funds and no documentation is available to support the method of allocation used. The city paid severance pay to the former City Clerk and Chief of Police upon their resignation.

7. Community Oriented Policing Services (COPS) Grant (pages 18)

No supporting documentation of the calculations used to prepare the quarterly financial reports for the Community Oriented Policing Services Grant (COPS), were retained by the city.

8. Minutes (pages 19)

The minutes of meetings of the Board of Aldermen did not contain some information required by statute. Minutes were not prepared to document the matters discussed in closed meetings, and did not always indicate the reasons for closing the meetings.

9. Municipal Court (pages 19-21)

Accounting and bookkeeping duties are not adequately segregated. Improvements are need in the city's municipal division's accounting documents and procedures. Various records related to the receipt of court monies could not be located for the period reviewed.

CITY OF NAYLOR, MISSOURI
MANAGEMENT ADVISORY REPORT

1.	Expenditures and Related Items
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- A. The city paid \$2,400 to the former Police Chief for the lease of law enforcement equipment during the year ended December 31, 1999 and \$1,374 to a service garage owned by an aldermen for repair and maintenance services on city vehicles in July 1998. In addition, the city made several other small payments to this garage during 1998 and 1999. The equipment rental and the garage services were not competitively bid. The former City Clerk indicated the city did obtain price quotes on the equipment rental; however, no documentation could be located.

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 and a lack of independence that could harm public confidence in the mayor and board and reduce their effectiveness.

Section 105.454 RSMo, 1994, prohibited financial transactions between the city and an officer or employee (or spouse, dependent child, or business and corporate interest of the officer or employee) that involved more than \$500 per year unless there had been public notice to solicit proposals and (except for real property) competitive bidding, provided that the bid or offer was the lowest received. In 1998, this threshold was changed to \$500 per transaction or \$1,500 per year with Section 105.454, RSMo Cum. Supp. 1999.

To reduce the appearance of conflict of interest and to ensure full compliance with state and city law, the city should bid all services provided by city officials and employees, and particularly where it is possible the payments may exceed \$500 per year. The Board should also consider establishing an ordinance which addresses these types of situations and provides a code of conduct for city officials.

In addition, payments to the Chief were not included on either an IRS 1099-Misc form or a W-2 tax form.

- B. The Board of Aldermen does not review and approve the payment of city expenditures prior to the disbursements being made. In addition, although there is an occasional reference to a specific invoice being approved for payment, the board minutes usually only make a general reference that invoices are being approved for payment. A financial report is prepared monthly by the City Clerk which includes a detailed listing of all expenditures by fund; however, the expenditures represent the preceding month's activities.

Expenditures made from city funds should be reviewed and approved by the Board of Aldermen before payment is made to ensure all disbursements represent valid operating costs of the city. In addition, to adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the aldermen to denote their approval, and retained with the official minutes.

- C. Supporting documentation was not maintained for some disbursements made by the city. Various payments for professional services had no invoice or other documentation to support the payments. In addition, other invoices were not adequately detailed to support the work performed.

All disbursements should be supported by paid receipts and/or complete vendor-provided invoices to ensure the obligation was actually incurred and the disbursement represents an appropriate use of public funds. The city should require detailed invoices for all services which include the number of hours worked by day, the work performed, and the hourly rate charged. Finally, the city should require that reimbursement requests include the date, purpose, and amount of the reimbursement.

WE RECOMMEND the Board of Aldermen:

- A. More closely examine future city transactions to identify and avoid apparent and actual conflicts of interests and carefully review all transactions with city officials and establish procedures to ensure all services obtained from city officials are properly bid in accordance with state law. In addition, the Board should ensure proper withholdings are made and compensation is reported to the IRS, as appropriate.
- B. Review and approve the expenditure of city funds prior to the disbursements being made. In addition, the approval of disbursements should be adequately documented by including a listing of all approved disbursements in the board minutes.
- C. Ensure all disbursements are supported by paid receipts and/or vendor provided invoices which contain an adequate description of the goods or services rendered.

AUDITEE'S RESPONSE

- A. *This recommendation has been implemented.*
- B. *This recommendation has been implemented. A list of itemized bills is presented to the Board for approval.*
- C. *This recommendation has been implemented.*

2.**Budgetary Practices and Financial Reporting**

- A. The budgets for the years ended December 31, 1999 and December 31, 2000 did not include budget messages, comparative statements of actual or estimated receipts and disbursements for the two previous years, or the beginning and projected ending cash balances for any of the funds budgeted. Section 67.010, RSMo 1994, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year.

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. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual disbursements. A complete budget should include separate receipt and disbursement estimations, and include the beginning available resources and a reasonable estimate of the ending available resources. The budget should also include a budget message and comparisons of actual receipts and disbursements for the two preceding years.

- B. The city exceeded the budgeted disbursement amounts in various funds during the year ended December 31, 1999, as follows:

Fund	Year Ended December 31, 1999
General Fund	\$ 30,827
Water Fund	13,272
Sewer Fund	3,868
Clutter's Museum Fund	122

Section 67.040, RSMo 1994, requires political subdivisions to keep disbursements within amounts budgeted. If there are valid reasons which necessitate excess disbursements, a resolution should be adopted by the governing body setting forth the amount of the budget increase and the facts and reasons for such.

- C. 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 receipts and disbursements published for the year ended December 31, 1999, did not agree to the city's accounting records. It appears the city's financial statements were published before all transactions had been recorded to its accounting records.

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.

WE RECOMMEND the Board of Aldermen:

- A. Prepare budgets that contain all information as required by state law.
- B. Ensure expenditures are kept within budgeted amounts. If it is necessary to incur additional expenditures, a resolution setting forth the increase and reasons for such should be adopted.
- C. Publish complete and accurate semiannual financial statements for all city funds as required by state law.

AUDITEE'S RESPONSE

- A. *We have hired Kraft, Miles, and Tatum to aid in this matter.*
- B. *This recommendation has been implemented.*
- C. *This will be done by Kraft, Miles, and Tatum in the future.*

3. Property Tax Procedures

- A. The City Collector does not prepare monthly or 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.

Sections 79.310, 94.320, and 94.330, RSMo 1994, require the city collector to prepare monthly and annual reports to the board of aldermen of the amount of taxes collected and to prepare annual lists of delinquent taxes including a detailed list of persons who have not paid. The board is to examine and approve the reports and charge the City Collector to collect the amount of delinquent taxes due.

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.

- B. The city receives cash and checks for the payment of property taxes. The tax bills which accompany the payment serve as the town's record of receipt; however, the method of payment (cash, check, money order, etc.) is not noted on the tax bills.

To ensure proper handling and safeguarding of town monies, the method of payment should be indicated on the tax bills and the composition of receipts reconciled to the bank deposits.

- C. Throughout most of the year, the City Clerk performs all accounting and record keeping duties regarding the city's property tax system and essentially serves as the City Collector during this time. While the Board of Aldermen has appointed a City Collector, it appears the individual is not involved in the accounting, collection, or record keeping of property taxes during most of the year. The City Clerk collects the receipts, maintains receipt and disbursement records, and makes bank deposits.

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.

If duties cannot be adequately segregated, the board should ensure an independent review of the functions performed by the City Clerk is performed on a periodic basis. This review should include, but not necessarily be limited to, someone other than the City Clerk reviewing the cancelled checks, bank statements, bank reconciliations, and comparing recorded receipts to bank deposits.

WE RECOMMEND the Board of Aldermen:

- A. Require the City Collector to prepare and maintain detailed monthly and annual reports of taxes collected and delinquent taxes. In addition, the reports should be reviewed and approved by the Board of Aldermen.
- B. Require the City Collector to record the method of payment on the corresponding tax bills received and reconcile the composition of receipts to bank deposits.
- C. Segregate the duties of receipting and depositing monies from that of preparing bills and recording payments. If proper segregation cannot be achieved, at a minimum, there should be an independent review of the reconciliations between tax payments deposited and recorded.

AUDITEE'S RESPONSE

These recommendations will be implemented immediately.

The city operates a water and sewage system that provides services to city residents. Meters are read by a city employee around the nineteenth or twentieth of each month, customers are billed on the last day of the month, and payments are due by the fifteenth of the subsequent month. Also included in the billings are charges for trash collection services for participating customers. Our review of the city's billing and collections records and procedures revealed the following concerns:

- A.1. Checks and money orders received are not restrictively endorsed until the deposit is prepared. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- 2. The method of payment received (cash, check, money order, etc.) is not indicated on the water and sewer receipts. To ensure receipts are accounted for properly and transmitted intact, the method of payment should be recorded on the receipt records. The composition of receipts should be reconciled to the composition of deposits.
- B. There is no independent oversight or adequate segregation of duties related to the city's utility system. The Utilities Secretary performs all functions related to generating monthly utility bills, receipting, recording, and depositing utility payments, and making credit adjustments.

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 receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If a proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations between utility payments recorded and deposits, and an independent review and approval of credit adjustments and delinquent account follow-up.

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

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and 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.

WE RECOMMEND the Board of Aldermen:

- A.1. Ensure checks and money orders are restrictively endorsed immediately upon receipt.
- 2. Require the method of payment be recorded on the utility bill stub and reconcile the composition of receipts to bank deposits.
- B. Segregate the duties of receipting and depositing monies from that of preparing bills and recording payments. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations between utility payments deposited and recorded, and an independent review of and approval for credit adjustments.
- C. Prepare monthly reconciliations of the amounts billed to amounts collected and delinquent accounts.

AUDITEE'S RESPONSE

- A.1. *This recommendation will be implemented immediately.*
- 2. *This recommendation has been implemented.*
- B. *This recommendation has been implemented. The City Clerk now reconciles the composition of utility deposits.*
- C. *This recommendation will be implemented within the next few months.*

5. Fixed Assets

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, it has not prepared and maintained permanent, detailed property records for the water and sewer system. Also, annual physical inventories are not performed.

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, 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.

WE RECOMMEND the Board of Aldermen 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.

AUDITEE'S RESPONSE

This recommendation will be implemented within the next few months.

6. Payroll Procedures

A. Salaries of city officials and employees have not been established by ordinance. Section 79.270, RSMo 1994, requires the Board of Aldermen to fix the salaries of all city officials and employees by ordinance.

B. The city pays wage and fringe benefit expenses from the general, water, sewer, and street funds. The former City Clerk indicated that she allocates wages based on which funds have monies. Records were not available to support the amounts charged to each of these funds.

Time sheets are prepared by all employees, indicating the total hours worked. However, no documentation is maintained to separately indicate the number of hours related to streets, water and sewer, or other activities.

It is essential that the city properly allocate expenses to various funds. This information is needed for the city to properly establish the user charges for the utilities and to ensure compliance with laws restricting the use of certain revenues.

C. In April 2000, the city paid a total of \$1,450 in severance pay to the former City Clerk and Chief of Police upon their resignation. This appears to represent additional compensation for services previously rendered and, as such, is in violation of Article III, Section 39 of the Missouri Constitution and contrary to Attorney General's Opinion No. 72, 1955 to Pray, which states "...a government agency deriving its power and authority from the constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered".

WE RECOMMEND the Board of Aldermen:

A. Fix the salaries of all city officials and employees by ordinance.

B. Ensure all salary expenses allocated to the various funds are reasonable and are supported by adequate documentation.

C. Discontinue paying severance pay to city officials.

AUDITEE'S RESPONSE

- A. *This recommendation will be implemented immediately.*
- B. *This recommendation is being implemented.*
- C. *We agree with this recommendation. This practice has been discontinued.*

7. Community Oriented Policing Services (COPS) Grant

The city received federal assistance from the U.S. Department of Justice under the COPS FAST program to increase the number of law enforcement officers. In December 1995, the city received a grant award of \$42,142 for one full-time officer. In addition, the city received a supplement to this grant in May 1998 for an additional full-time officer and one part-time officer which increased the number of city officers to three (including the Police Chief). Under the grant provisions, the city was required to provide 25% of the cost of employing the additional officers for the first year of the grant, 30 percent for the second year, and 40 percent for the third year leading to 100 percent funding when the grant expires.

The City Clerk is responsible for filing quarterly report/reimbursement request for the COPS Fast Program. The reports were completed and submitted to the Department of Justice electronically via the Phone Activated Paperless Request System (PAPRS). The City Clerk calculated the amounts for reimbursement; however, she did not retain documentation of her calculations or copies of the reports.

To ensure grant funds are properly requested and information is correctly reported to federal programs, the city should ensure expenditures, local match provided, and other data reported on the grant reports/reimbursement requests are accurate, complete, and made in accordance with grant guidelines. In addition, copies of the reimbursement requests should be retained by the city.

WE RECOMMEND the Board of Aldermen work with the appropriate officials to ensure adequate documentation is maintained to support grant reports/reimbursement requests required to be filed with the grantor agency and that copies of the reports are retained by the city.

AUDITEE'S RESPONSE

This grant has been discontinued at the advice of the federal government. We will attempt to maintain better documentation for future grants.

8.**Minutes**

- A. The minutes of the meetings of the Board of Aldermen did not contain some information required by statute. There were numerous instances where the minutes indicated a motion had passed, but did not indicate the number of votes for and against.

Section 610.020, RSMo, states that the minutes shall include the date, time, place, members present, members absent, and a record of votes taken. Complete and accurate minutes provide an official record of board actions and decisions.

- B. The board regularly conducts closed meetings. Minutes were not prepared to document the matters discussed in closed meetings, and board minutes did not always indicate the reasons for closing the meetings.

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

Without the preparation of closed minutes, there is less evidence that the provisions of the Sunshine Law, Chapter 610, RSMo, regarding these closed meetings, have been followed.

WE RECOMMEND the Board of Aldermen:

- A. Ensure minutes include all information required by statute.
- B. Ensure minutes are prepared for all closed meetings, and the reasons for closing the meeting are documented in the board minutes as required by law.

AUDITEE'S RESPONSE

These recommendations have been implemented.

9.**Municipal Court**

- A. The duties of receiving, recording, and depositing court receipts are not adequately segregated. The City/Court Clerk performs all the duties related to the collection, deposit, and recording of fines, court costs, and bonds. There is not an independent

reconciliation between receipts and deposits. In addition, there is no supervisory review performed of the City/Court Clerk's functions by an independent person.

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 court monies from that of recording receipts. If proper segregating of duties cannot be achieved, at a minimum there should be a supervisory review of the reconciliations between receipts and deposits.

- B. Our review noted the following concerns related to receipts:
- 1) Receipt slips are not issued for some monies received by mail. To adequately account for all receipts and to ensure all receipts are deposited intact, receipt slips should be issued for all monies received, and the numerical sequence of receipt slips should be accounted for properly.
 - 2) The composition of receipt slips issued is not reconciled to bank deposits. To ensure receipts are deposited intact, the composition of receipt slips issued should be reconciled to the composition of bank deposits.
- C. Various records related to the receipt of court monies could not be located for the period reviewed. Receipt books were not kept to account for the sequence of receipts. In addition, data related to tickets issued was deleted from the computer without copies of the information being retained.

Supreme Court Administrative Rule 8 requires that all financial records be maintained for five years or upon completion of an audit. Retention of applicable records is necessary to properly account for all court monies received.

WE RECOMMEND the City of Naylor Municipal Division:

- A. Adequately segregate the duties of receiving, recording, and depositing court monies. At a minimum there should be a documented periodic review of the municipal division records by an independent person.
- B. Issue receipt slips for all monies received and reconcile total cash, checks, and money orders received to bank deposits.
- C. Retain all court records in accordance with Supreme Court Administrative Rule 8.

AUDITEE'S RESPONSE

The municipal division has been discontinued.

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

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