



**VILLAGE OF BULL CREEK, MISSOURI
YEAR ENDED JUNE 30, 2001**

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

**Report No. 2002-35
May 9, 2002
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

May 2002

The following problems were discovered as a result of an audit conducted by our office of the Village of Bull Creek, Missouri.

The Village of Bull Creek is experiencing serious financial difficulty due to the poor management decisions and actions related to their Phase II sewer project. As of June 30, 2001, the village owes approximately \$1,390,000 in principal payments on its sewer system. Based on their current financial condition, the village may be unable to meet the debt service requirements of its sewer projects. The financial problems have resulted from the lack of adequate planning and approval related to the Phase II sewer project which increased the village debt by \$890,000. Since the village proceeded on Phase II without the approval of the Taney County Commission and the Taney County Regional Sewer District, it has been unable to use the Taney County's Sewer Sales tax monies distributed to the village to pay the related debt.

In December 1999, the Board of Trustees entered into an agreement with the same project manager that managed Phase I to provide additional sewer improvements. Phase II was treated as a "design and build" project in which the project manager handled all aspects of the project including the selection of engineers, inspectors, and construction contractors. The village paid the project manager approximately \$151,000 through December 31, 2001 for work performed on Phase II. Additionally, the village paid a firm (owned by the project manager) \$40,000 to arrange financing for Phase II. The firm also agreed to assist the village in refinancing the debt on Phase I. Neither the project manager nor the financial advisor submitted itemized invoices for the services provided.

Through December 31, 2001, the village has paid approximately \$743,000 on Phase II expenditures. The village did not assure itself that it received the lowest and best price on the completed project since it did not competitively bid out any aspect of the project or ensure that bids were required by the project manager. Further, the village's lack of oversight provided little assurance the fees paid the project manager (and the financial advisor) were reasonable and proper.

The village provides water, sewer, and trash services to approximately 250 customers. Computer records, consisting of utility account billings and delinquent utility billings, were not properly retained. From the utility records that were available, concern was noted regarding the collection of March 2001 utility bills. Due to the lack of controls and the inadequacy of the village records, the village has no assurance that all utility payments received were properly deposited.

(over)

YELLOW SHEET

There is no independent oversight or adequate segregation of duties related to the village's utility system. The former Village Administrator and his wife (who served as Village Clerk until July 2001) performed all functions related to generating monthly utility bills, receipting and recording utility payments, making credit adjustments, depositing money received, and monitoring accounts for delinquencies.

The former Village Administrator was allowed to use village equipment for his personal use. In addition, the former Village Administrator and his wife spent numerous hours (approximately 15 hours per week) on the village telephone to access the village's Internet service provider. During a three month period, over 10,900 minutes were used to access the internet and the village was originally billed over \$1,600 for the related long distance charges.

The audit also includes some matters related to bidding and expenditures, budgets and financial reporting, personnel procedures, ordinances and board meetings, accounting records and procedures, fixed asset procedures, and the municipal court, upon which the village should consider and take appropriate corrective action.

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VILLAGE OF BULL CREEK, MISSOURI

TABLE OF CONTENTS

		<u>Page</u>
STATE AUDITOR'S REPORT		1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS.....		4-25
<u>Number</u>	<u>Description</u>	
1.	Financial Condition.....	5
2.	Phase II Sewer Project	6
3.	Expenditures	8
4.	Administrator's Employment Contract and Payroll Procedures	9
5.	Accounting Records and Procedures	11
6.	Utility System Accounting Controls and Procedures.....	13
7.	Budgets and Financial Reporting.....	17
8.	Ordinances and Board Meetings.....	19
9.	Asset Records and Procedures	21
10.	Municipal Court.....	22
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....		26-29

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Chairman
and
Board of Trustees
Village of Bull Creek, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the village of Bull Creek, Missouri. The scope of our audit of the village included, but was not necessarily limited to, the year ended June 30, 2001. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the village.

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

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the village's management and was not subjected to the procedures applied in the audit of the village.

The accompanying Management Advisory Report presents our findings arising from our audit of the village of Bull Creek, Missouri.

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

Claire McCaskill
State Auditor

December 4, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: David Holtmann, CPA
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

VILLAGE OF BULL CREEK, MISSOURI
MANAGEMENT ADVISORY REPORT

1. Financial Condition

The village has incurred a significant amount of debt related to its sewer improvement projects. As of June 30, 2001, the village owes approximately \$1,390,000 (includes \$510,000 on Phase I and \$880,000 on Phase II) in principal payments on its sewer system. The village has no formal plan to address the repayment of their debt and based on their current financial condition, the village may be unable to meet the debt service requirements of their sewer projects. The village's financial problems have resulted from the lack of adequate planning and approval related to the Phase II sewer project. The village proceeded on Phase II without the approval of the Taney County Commission and the Taney County Regional Sewer District, and in doing so, has been unable to use the Taney County's Sewer Sales tax monies distributed to the village to pay the related debt.

Near the completion of the village's Phase I sewer project (the village's lift station, sewer lines and connections for the residents, and the sewer capacity of the Rockaway Beach sewer treatment plant), the village began a second sewer project outside of the village's boundaries (Phase II). This project involved the construction of a second lift station, a sewer line and the acquisition of an existing sewer treatment plant to a near-by apartment complex. The addition of the apartment complex resulted in approximately 150 additional users to the village's sewer system and increased the village debt by \$890,000.

In January 2001, the Board of Trustees approved a lease-purchase agreement of \$890,000 with the Missouri Association of Municipal Utilities (MAMU), a not-for-profit corporation, for the Phase II sewer project. The agreement is for 20 years and is to be repaid in quarterly installments. The village intended on utilizing their portion of the county's sewer sales tax to fund the debt requirements of the project. Since the village's sewer sales tax had already been pledged to cover the debt requirements of Phase I, the village refinanced Phase I incurring a "refinance fee" totaling over \$28,000 to extend the repayment period from five years to twenty years.

As a result of the many concerns surrounding the Phase II project (see MAR finding number 2), the county stopped all sewer tax payments to the village. In November 2001, the county reinstated the sewer sales tax payments; however the payments are contingent on the village agreeing not to use the monies for the repayment of the Phase II project. As of January 2002, the village has approximately \$330,000 of county sewer sales tax monies earning less than two percent interest while they are paying four to six percent interest on their outstanding balance of Phase I. Additionally, the village will continue to receive approximately \$13,000 per month in county sewer sales tax payments thru October 2003 (which should be sufficient to cover the outstanding debt of Phase I).

Since the village is unable to use the county's sewer sales tax monies to cover the debt requirements of the Phase II sewer project, the village must develop a plan to address the

debt requirements of the village. The current user fees for the additional apartment complex fail to generate sufficient funds to pay the related debt (generating approximately \$33,000 annually in user fees while the debt payments range from \$60,000 to \$80,000 annually). A formal rate study should be performed to determine the appropriate rate structure for the users of the sewer system along with other financing options to alleviate the financial crisis.

Numerous internal control weaknesses, lax controls over expenditures, and inefficient management practices have been identified and discussed in more detail throughout our Management Advisory Report (MAR). These weaknesses and poor management decisions combined with the village's actions related to Phase II have put the village in financial difficulty.

WE RECOMMEND the Board of Trustees closely monitor the financial condition of the village's funds. The board should perform a formal rate study of the water and sewer system to determine the appropriate rate structure for the users of the system along with reviewing other financing options to alleviate the financial crisis. In addition, the board should develop a plan to allow the village to repay debt incurred on the sewer system and improve the financial condition of the village.

AUDITEE'S RESPONSE

We have been monitoring the financial condition of the village and cutting operating expenses to an absolute minimum. We currently have no paid positions within the village yet realize we will have to hire a clerk to perform the administrative duties of operating the village hall. We will perform a rate study for our water/sewer system and adjust rates (including deposits) accordingly. We plan to restructure our user fees for both residential customers and users outside the village boundaries. We will continue to work with Taney County and our loan company to address the repayment of our outstanding debt.

2. Phase II Sewer Project

A. In December 1999, the Board of Trustees entered into an agreement with the same project manager that managed Phase I to provide sewer improvements to meet the needs of the village. The project (Phase II) was handled as a "design and build" project in which the project manager acted as the administrator for the project, handling all aspects of the project including selection of engineers, inspectors, and construction contractors. A summary of Phase II expenditures paid from the trustee bank project account through December 31, 2001 is as follows:

Vendor	Description	Amount
O.E.I. Facilities, Inc.	project management	\$ 151,305
Financing Solutions, Inc.	financial advisory services	35,000
Lost Tree Condominiums	apartment wastewater treatment facility	125,000
Beemer Construction Co, Inc.	construction	344,874
The Larkin Group, Inc.	engineering	11,689
Village of Bull Creek	inspections	12,000
Tri-Lakes Motors, Inc.	heavy-duty pickup truck	37,864
Various	other	25,471
Total		\$ 743,203

As noted above, the village paid the project manager approximately \$151,000 through December 31, 2001 for work performed on Phase II. The project manager did not submit itemized invoices for his services. Given the substantial amount of fees paid the project manager, the village has no assurance the amount paid was reasonable. In addition, the village did not consider any other project manager.

As a result of this situation, the village did not assure it received the lowest and best price on the completed project since the village did not competitively bid out any aspect of the project or ensure that bids were required by the project manager. Competitive bidding procedures for major construction projects provide a framework for the economical management of resources and help ensure the village receives fair value by contracting with the lowest and best bidders. Further, the village's lack of oversight provided little assurance the fees were reasonable and proper.

- B. The lease purchase program, administered by MAMU, is designed to offer simple leasing terms to municipalities; however, the village paid a firm (owned by the project manager) \$40,000 to arrange financing for Phase II of the sewer project. The firm also agreed to assist the village in refinancing the debt on Phase I.

The village did not seek competitive proposals for the services of the financial advisor. While the village did have a written agreement with the financial advisor, the financial advisor did not submit itemized invoices for the services provided.

The project manager, who served as financial advisor, indicated that in addition to completing the lease application he advised the village to select a variable rate of interest. The lease application consists of a five-page application. Further, MAMU indicated that many municipalities work directly with their organization to complete the required application.

The village's lack of oversight provided little assurance the fees were reasonable and proper. The village should require itemized invoices and review these invoices to ensure the fees are reasonable and proper.

WE RECOMMEND the Board of Trustees seek competitive proposals for professional services (project management and financial services) and ensure all options are fully evaluated for cost effectiveness on future construction projects. In addition, the village should properly plan all construction projects to allow competitive bidding on all major aspects of the project. The village should also require itemized invoices to be submitted for professional services that fully document the work performed.

AUDITEE'S RESPONSE

We are currently working on a specific procurement policy. The current board inherited the problems that resulted from Phase II and we agree the project was poorly thought-out and managed. We also understand it is our responsibility to move forward in resolving the mistakes encountered during this project and will ensure any future project is properly planned and monitored by the board.

3. Expenditures

- A. The village does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Bids were either not solicited or bid documentation was not retained in some instances, including \$37,864 for a heavy-duty pickup truck (see MAR finding number 2) and \$7,756 for trash services.

Formal bidding procedures for major purchases would provide a framework for economical management of village resources and help ensure the village receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the village's business. Not only can bids be handled by telephone quotation, but bids can also be obtained by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. Vendor invoices or other supporting documentation were not properly retained for thirteen of twenty-six expenditures we reviewed. In other instances, payments were processed without a sufficiently detailed invoice. Invoices submitted for some payments did not include an itemized listing of the work performed or a date the work was performed. Six of the payments noted above (totaling \$852) represented reimbursements to the former Village Administrator, however; adequate documentation to support the reimbursements was not retained.

All expenditures should be supported by sufficiently detailed vendor invoices to ensure the obligations were actually incurred and the expenditures represent appropriate uses of public funds.

- C. Village procedures related to the processing and approval of expenditures are lacking. In addition, interfund transfers are not approved by the board. To ensure all disbursements represent valid transactions of the village, the board should review all vendor invoices, ensure goods or services were actually received by the village, and agree the invoices to checks issued. In addition, board approval should be documented for all expenditures and interfund transfers.
- D. The village did not file Forms 1099 with the Internal Revenue Service. The Internal Revenue Code requires payments of \$600 or more annually for services by nonemployees (other than corporations) be reported to the federal government on Form 1099. The village paid two individuals \$900 and \$710 respectively, in labor costs for maintenance on its sewer system. Also, the village paid the village's attorney, prosecutor, and judge \$100 each month for legal services.

WE RECOMMEND the Board of Trustees:

- A. Establish formal bidding policies and procedures, with provisions for documentation of the justification for selecting and rejecting bids.
- B. Require adequate supporting documentation for all expenditures.
- C. Review and approve all expenditures of village funds prior to the disbursements being made. In addition, approval for all expenditures and interfund transfers should be documented in the board minutes.
- D. Ensure that IRS Forms 1099 are filed as required for prior years as well as in the future.

AUDITEE'S RESPONSE

- A. *This is currently being reviewed by the board.*
- B&C. *These recommendations have been implemented.*
- D. *The applicable forms have been filed for 2001 and we are currently reviewing prior years.*

4. Administrator's Employment Contract and Payroll Procedures
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- A. The village entered into a questionable employment contract with the former Village Administrator. The contract did not allow the village to terminate the

administrator or not renew the contract without incurring a financial hardship. While the village minutes indicate the village attorney reviewed the contract, the minutes do not indicate the need for a village administrator position (since the village has not filled the position since July 2001 and has no plans to fill the position).

The village did not renew the Village Administrator's contract in July 2001. Although board members indicate that the Village Administrator resigned, board minutes were not available to document this fact. From village records, it appears the Village Administrator remained a village employee until July 19, 2001.

In the future, the village should ensure all employment contracts are reasonable and thoroughly reviewed by the board. In addition, significant board decisions should be fully documented in the board minutes.

- B. Due to the financial condition of the village, the former Village Administrator did not always receive his salary payments when they were due and would occasionally issue his payroll checks for lesser amounts as funds became available. Our review indicated the former Village Administrator was paid an additional \$200 in October 2000. This overpayment occurred and was not detected because the village did not review the payroll amounts.

The Board of Trustees should review all payroll amounts and ensure payments are proper.

- C. Our review of the village's payroll practices and related procedures identified the following concerns:

- The village did not withhold federal or state income taxes from the compensation paid to the village employees. Wages earned by village employees were not reported on W-2 forms. In addition, social security and medicare taxes withheld from the former Village Administrator's wages were not remitted to the appropriate taxing authority.
- The village failed to file the required federal and state payroll tax returns.
- The village did not have employee withholding forms (W-4) on file for the individuals employed by the village.

The Internal Revenue Code requires employers to withhold and remit federal income taxes; report wages on W-2 forms; pay their share of social security on the compensation paid to employees; and ensure W-4 forms are completed by all employees. In addition, Section 143.191, RSMo 2000, requires employers to withhold state income taxes from wages and establishes requirements for reporting wages. The village should determine the total taxes due the applicable taxing authorities and make the required payments.

WE RECOMMEND the Board of Trustees:

- A. Ensure all employment contracts are reasonable and thoroughly reviewed by the board. In addition, significant board decisions should be fully documented in the board minutes.
- B. Review all payroll amounts and ensure payments are proper.
- C. Ensure payroll taxes are properly withheld and remitted for any wages or salaries paid. The board should ensure all individuals receiving salaries or wages from the village have a properly completed W-4 form on file and that payroll tax reports are filed with the proper authorities. In addition, the board should file employee W-2 forms for the applicable years and ensure the taxes due the applicable taxing authorities are paid.

AUDITEE'S RESPONSE

- A. *We agree.*
- B. *This will be done.*
- C. *All prior tax forms have been filed with the applicable payment. We are awaiting a determination from the taxing authorities for any penalty.*

5. Accounting Records and Procedures

- A. Procedures have not been established to ensure expenditures are properly allocated among the various funds and to ensure restricted revenues are expended only for their intended purposes.

The village made monthly transfers from the Utility, Sewer Sales Tax and Court Funds to the General Fund to cover various administrative expenses incurred in the General Fund. Transfers to the General Fund from the three funds for the year ended June 30, 2001, totaled \$39,839. The village does not have any documentation, such as time studies, to support these allocations.

It is essential that the village properly allocate expenses to the various funds. Allocation of expenses is necessary for the village to ensure the water, sewer, and trash rates are sufficient to cover the cost of providing the service without generating profits to subsidize other village services.

- B. Our review of the controls over receipts (other than utility fund receipts) noted the following concerns:

1. Receipt slips are not issued for some monies received by the village. To adequately account for all receipts, prenumbered receipt slips should be issued for all monies received, and the numerical sequence of receipt slips accounted for properly.
 2. The method of payment received (i.e. cash, check, money order) is not recorded on the receipt slips. To ensure all receipts have been recorded properly and deposited intact, the method of payment received should be recorded on each receipt slip and the composition of receipt slips should be reconciled to the composition of bank deposits.
 3. Checks are not restrictively endorsed immediately upon receipt. Instead, they are endorsed when the deposit is made. To reduce the risk of loss or misuse of funds, checks should be restrictively endorsed immediately upon receipt.
 4. Some copies of voided receipt slips were not maintained. To ensure that all receipts slips are properly accounted for, all copies of voided receipt slips should be properly defaced and maintained.
- C. The village maintains a petty cash fund for small expenditures. The petty cash fund is not maintained on an imprest basis. The village periodically replenishes the fund with \$75 whenever the balance is low. Documentation of the expenditures made from the petty cash fund is not maintained.
- To ensure all expenditures are proper, the village should maintain the petty cash fund on an imprest basis and retain all documentation to support the expenditures of the fund.
- D. All Board of Trustee members are authorized to sign checks; however, they are not bonded. Failure to adequately bond all persons with access to assets exposes the village to risk of loss.
- E. The village does not have a written agreement with its current depository bank. A written depository contract helps both the bank and the village understand and comply with the requirements of any banking arrangement. During our review of the village's bank accounts, we noted three non-interest bearing checking accounts and a fourth checking account (Sewer Sales Tax Fund) that was interest bearing only if the account balance exceeded \$200,000. While the Sewer Sales Tax Fund bank account maintained an average monthly balance of approximately \$179,000, the account did not earn interest for most of the year ending June 30, 2001.

The village should review their bank accounts in an effort to maximize any interest earned on the accounts. In addition, the village should ensure any depository agreement includes provisions that detail any bank fees for check printing, checking account services, and safe deposit boxes; interest charges on any borrowed funds; and interest rates for invested funds.

WE RECOMMEND the Board of Trustees:

- A. Ensure all expenditures are properly allocated to the various funds and the allocations are supported by adequate documentation.
- B.1. Require prenumbered receipt slips to be issued for all monies received, and ensure the numerical sequence of receipt slips is accounted for properly.
 - 2. Ensure the method of payment is recorded on each receipt slip and the composition of receipts is reconciled to the composition of bank deposits.
 - 3. Restrictively endorse all checks immediately upon receipt.
 - 4. Retain all voided receipt slips.
- C. Maintain the petty cash fund on an imprest basis and retain adequate documentation for all petty cash expenditures.
- D. Obtain bond coverage for the village officials authorized to sign checks.
- E. Review the village's bank accounts in an effort to maximize any interest earned and enter into a written agreement with the village's depository bank.

AUDITEE'S RESPONSE

*A,B.1-4,
D&E. These recommendations have been implemented.*

C. This fund has been established at \$100 and expenditures are supported by documentation.

6. Utility System Accounting Controls and Procedures

The village provides water, sewer and trash services to approximately 250 customers. All residential users (different for commercial users) are charged the same rate for each type of service provided by the village. Our review of the village's billing practices and related procedures identified the following concerns:

- A. The former Village Administrator indicated he maintained computerized records to account for the transactions of the utility checking account. Computer records, consisting of utility account billings and delinquent utility billings, were not properly retained. Information related to amounts billed to customers was only available for the last six months of the year ended June 30, 2001. The Former Administrator kept many of the computerized records on his personal computer and did not provide any of the records to the village when he left employment with the village. In addition, documentation was not retained that identified the receipts included in each deposit.

From the utility records that were available, we compared the amounts billed to customers to the subsequent months deposited amounts. Our comparison revealed a significant difference for the month of March 2001.

Month	Amounts Billed	Subsequent months collection	Amount Uncollected	Percent Uncollected
January	\$ 3,790.46	3,481.09	309.37	8.2%
February	4,202.33	4,046.06	156.27	3.7%
March	3,766.81	2,509.38	1,257.43	33.4%
April	4,613.54	4,291.10	322.44	7.0%
May*	7,815.02	6,450.92	1,364.10	17.5%
June	8,705.42	9,359.36	(653.94)	-7.5%

* In May 2001, the village added the Lost Tree Apartments to its sewer system. Many Lost Tree customers were unaware of the change and this resulted in an unusually high delinquent balance in the subsequent months collection. The problems was resolved in the subsequent month.

We also reviewed the cash composition of deposits during the same time period. For all months excluding April (the month that March utility bills are collected), the amount of cash deposited was approximately 16-18 percent of the total deposited. The amount of cash deposited in April was only 7 percent of the total deposited, a substantially lower amount. Due to the lack of controls and the inadequacy of the village records, the village has no assurance that all utility payments received by the village were properly deposited.

The village's practices represent poor controls over cash receipts and should be discontinued. To ensure proper control and maintain accountability over cash, receipts should be deposited intact. The village should maintain the applicable

records necessary to account for all monies received and disbursed. In addition, the village should investigate the receipt concerns related to the month of March 2001 and take appropriate action.

- B. There is no independent oversight or adequate segregation of duties related to the village's utility system. The former Village Administrator and his wife (served as the Village Clerk until July 2001) performed all functions related to generating monthly utility bills, receipting and recording utility payments, making credit adjustments, depositing money received, and monitoring accounts for delinquencies. Currently, a board member is responsible for these duties.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of 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 village has not established formal procedures for making adjustments to individual utility bills. Several adjustments were made in September and October 2001 when some customers were over billed. No supporting documentation or independent approval existed for the adjustments made to customer accounts.

To ensure that all credit adjustments are valid and properly approved, someone independent of receipting and recording functions should review all credit adjustments and proper supporting documentation should be maintained of such adjustments.

- D. The village does not reconcile beginning accounts receivable plus monthly billings, less total utility payments and adjustments, to the ending accounts receivable. The individual customer account balances could then be totaled and agreed to the ending accounts receivable balance. This would help to ensure all amounts have been properly recorded to individual customer account records and that delinquent balances are accurate.

- E. After August 2000, all new customers to village services were required by ordinance to pay a refundable deposit before receiving water, sewer, and trash service. These amounts were deposited in the Utility Fund. Currently, the village collects the following deposit amounts: \$30 water; \$20 sewer; and \$15 trash; however, varying amounts had been collected in the past. Customer deposits made since July 2001 have been tracked by the village's utility billing system; however, records of customer deposits made prior to July 2001 have not been maintained. Of the 250 village customers (as of October 2001), the village has

record of only 43 utility deposits totaling approximately \$1,900. Given the village's financial condition, it does not appear there is sufficient funds to cover the utility deposits in the Utility Fund.

To ensure all customer deposits have been received and are properly accounted for, adequate records of customer deposits should be maintained. The village needs to identify the amount of the deposit held for each customer and update the permanent record of this information. Preparation of a detailed listing of customer deposits would provide a means to perform periodic reconciliations between customer deposit records and monies in the account. Without these reconciliations, the possibility of undetected errors is increased.

WE RECOMMEND the Board of Trustees:

- A. Improve the controls over cash receipts by retaining documentation that identifies the receipts included in each deposit and by maintaining the applicable records necessary to account for all monies received and disbursed. In addition, the village should investigate the receipt concerns related to the month of March 2001 and take appropriate action.
- B. Segregate the duties of receipting and depositing monies from that of preparing bills, recording payments and following up on delinquent accounts. 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 and delinquent account follow-up.
- C. Develop formal approval procedures for all credit adjustments and ensure adequate documentation is retained of such adjustments.
- D. Maintain adequate accounts receivable records for all customer accounts.
- E. Maintain adequate records of all customer deposits held by the village and periodically reconcile these deposits to the cash available.

AUDITEE'S RESPONSE

- A. *This has been implemented. We reconcile amounts collected on a daily basis. We will review the March 2001 situation and take appropriate action.*
- B. *A board member is currently performing all of the administrative duties.*
- C&E. *These recommendations will be implemented.*
- D. *This has been implemented.*

- A. Our review of the village's budgets and related procedures noted the following concerns:
1. The budget for the year ended June 30, 2001 did not present a complete financial plan for the ensuing years. The actual and estimated cash and resources available at the beginning and end of the year, respectively, were not included in the budget.
 2. The budget did not include a budget message or general budget summary that describes features of the budget and the major changes from the preceding year.
 3. The budgets did not include actual revenues and expenditures for the two preceding years.
 4. The Sewer Sales Tax Fund and the DNR Sewer Fund were not included in the budget document.
 5. A budget amendment for the 2001 budget was not adopted by order, motion, resolution, or ordinance, and was not retained with the official minutes. Also, the reasons for the budget amendment was not documented in the minutes.

Section 67.010, RSMo, requires each political subdivision of the state to prepare an annual budget with specific information. 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 complete budget should include appropriate revenue and expenditure estimations by classification, and include the beginning available resources and reasonable estimates of the ending available resources of all funds. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding years.

Further, Sections 67.030 and 67.040, RSMo, require budgets and budget amendments to be adopted by order, motion, resolution, or ordinance and reasons for amendments to be documented in a resolution. In addition, budgets and budget amendments should be signed or initialed by the board and retained with the official minutes to adequately document the board's approval.

- B. An annual maintenance plan for village streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates

such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the village residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

- C. Semiannual financial statements are not prepared and published or posted as required by law. Section 80.210, RSMo, provides that the board of trustees is to prepare a correct statement of all monies received and expended on behalf of the village for the preceding six months and publish the financial statement in a local newspaper or post the statement in six public places within the village.
- D. The village has not filed annual financial reports with the State Auditor's Office since 1999. Section 105.145, RSMo 2000, requires the village to file a financial report with the State Auditor's Office annually.

WE RECOMMEND the Board of Trustees:

- A. Formally adopt the annual budgets for all village funds and ensure the annual budgets include all relevant information required by state law. In addition, the board should sign or initial the budgets and budget amendments and retain them with the official board minutes.
- B. Prepare a formal maintenance plan for village streets at the beginning of the fiscal year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.
- C. Ensure semiannual financial statements are published or posted in accordance with state law.
- D. File an annual financial statement with the State Auditor's Office as required by state law.

AUDITEE'S RESPONSE

- A. *We are working on a preliminary budget for 2002-2003.*
- B. *We have solicited bids for maintenance on our village roads.*

C. *We have completed a financial statement for the six months ended December 31, 2001, and will publish the financial statement next week.*

D. *This will be done.*

8. Ordinances and Board Meetings

A. Improvement is needed in the organization of the village's ordinances. The village's ordinances have not been codified, thus hindering the village's ability to locate specific ordinances. In addition, during our review of ordinances, we noted the following concerns:

1. A review of the village's existing ordinance book indicated ordinances are not always sequentially numbered and a complete index of all ordinances passed by the village is not maintained.
2. The village has several ordinances that are not followed by the village.
 - Ordinance 98-49 requires the village to establish a reserve account for the sewer system and deposit \$1,943 annually into this account. The village has not established this reserve account. In addition, the village is required to perform an annual review of the sewer rates. The village has not performed a review of the sewer rates.
 - The village has an ordinance that establishes late fees for delinquent utility payments and states that delinquent customers will be disconnected from the system; however the ordinance does not establish a time frame for when customers will be disconnected for failure to pay.
 - Ordinance 98-38 establishes special rates for part-time utility customers; however, these customers are charged the same rate as full-time customers.
3. The village has not adopted ordinances to set the trash fee, the water rates and the salaries of all village employees.

Since the ordinances represent the legislation passed by the Board of Trustees to govern the village and its residents, it is important that they be maintained in a complete, well-organized, and up-to-date manner. Such items as water rates, trash rates and compensation of village employees should be set forth in the ordinances to give taxpayers information on how the village is to be governed.

- B. The board minutes prepared by the Village Clerk were not always signed. The board minutes should be signed by the Village Clerk as preparer and a board member to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- C. The Board of Trustees held several closed meetings during the last two years; however, minutes were not always prepared to document the matters discussed in closed meetings and the regular board minutes did not always indicate the reasons for closing the meetings. Section 610.022, RSMo, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session. In addition, closed session minutes are necessary to document and record official board decisions and actions affecting village government and the public, and to ensure compliance with the Sunshine Law.

Also, some topics discussed in closed meetings did not meet the criteria outlined in Section 610.021, RSMo. An example of a closed meeting that appeared questionable was for the approval of the purchase of a printer and computer software. The board should restrict the discussions in closed session to the specific topics allowed by state law.

WE RECOMMEND the Board of Trustees:

- A. Ensure a complete and up-to-date set of the village's ordinances are maintained in numerical sequence and secured in an ordinance book. New ordinances should be passed as needed and the board should ensure it operates in accordance with established ordinances.
- B. Ensure board minutes are signed by the Village Clerk as preparer and a board member to attest to their completeness and accuracy.
- C. Hold a vote to go into closed session, state the reasons for going into closed session, publicly disclose the final disposition of applicable matters discussed in closed session, and ensure only allowable, specific subjects are discussed in closed session as required by state law. In addition, the board should also ensure minutes are prepared for all closed meetings.

AUDITEE'S RESPONSE

A. *We will review all ordinances and take appropriate action during the next year.*

B&C. *These recommendations have been implemented.*

- A. The former Village Administrator was allowed to use village equipment for his personal use. For example, the former Village Administrator was allowed (by his contract) to use the village's heavy-duty pickup truck for personal use. The village truck was driven approximately 5,000 miles during the first six months of 2001. Further, the former Village Administrator and his wife who served as the Village Clerk, spent numerous hours (approximately 15 hours per week) on the village telephone to access the village's Internet service provider. Between February 23, 2001 and May 16, 2001, over 10,900 minutes were used to access the Internet. The village was originally billed over \$1,600 for the related long distance charges associated with the Internet usage; however, the phone company waived the majority of the charges after the village became current with its phone bill. The excessive use of the phone line prevented the residents from having access to the village during those times.

Personal use of village assets is inappropriate and increases the risk of loss or misuse of those assets. A policy prohibiting the personal use of the vehicles and other village assets should be adopted.

- B. The village has not established formal policies and procedures for general fixed assets, including procedures for an annual physical inventory of the village's general fixed assets. In addition, the village does not maintain adequate property records to account for the general fixed assets owned by the village. While a list of some assets is maintained by the village clerk, the listing is not complete and does not include an adequate description of each property item.

Adequate general fixed assets records are necessary to provide better controls over village property and provide a basis for proper financial reporting. Formal policies and procedures for the annual physical inventory are necessary to ensure all personnel understand the duties assigned to them.

- C. The village owns three vehicles (a heavy-duty pickup truck, a car, and a blazer). Daily usage logs are not maintained for the car and the blazer. While a log is maintained for the pickup truck, it does not always include adequate information on the destination of the trip, purpose of the trip and the individual using the vehicle. In addition, this log is not reviewed by the Board of Trustees.

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

- D. The village purchases gasoline in bulk and stores the fuel in a village-owned tank. While a log is maintained to record the amount of gasoline pumped from the village's metered tank, the log is not reconciled on a periodic basis to the gallons purchased.

To ensure that fuel expenditures are reasonable and that fuel is properly accounted for, the usage recorded on the fuel logs should be reconciled to the fuel purchased on a periodic basis and significant differences should be investigated.

WE RECOMMEND the Board of Trustees:

- A. Adopt a policy prohibiting the personal use of village vehicles and assets.
- B. Develop formal policies and procedures regarding general fixed asset records including an annual physical inventory of general fixed assets.
- C. Require daily usage logs be maintained for all village vehicles and perform a periodic review of the logs.
- D. Reconcile fuel usage to fuel purchases and investigate any significant differences.

AUDITEE'S RESPONSE

- A. *This has been implemented.*
- B. *This will be done within 90 days.*
- C. *We have sold everything but the truck. We currently keep a log on this truck and review it on a periodic basis.*
- D. *We no longer have the fuel tank.*

10. Municipal Court

- A. Our review of the controls over receipts noted the following concerns:
 - 1. During our review of recorded receipts, we noted three receipts totaling \$217 were not deposited into the court's bank account during the year ending June 30, 2001. Neither the city nor the court has investigated the shortage. The court should take necessary action to investigate the shortages and take appropriate action.

2. Receipt slips are not issued for all monies received by the division. To adequately account for all receipts, prenumbered receipt slips should be issued for all monies received and the numerical sequence should be accounted for properly.
 3. The method of payment received (i.e. cash, check, money order) is not recorded on the receipt slips. To ensure all receipts have been recorded properly and deposited intact, the method of payment received should be recorded on each receipt slip and the composition of receipt slips should be reconciled to the composition of bank deposits.
 4. Checks are not restrictively endorsed immediately upon receipt. Instead, they are endorsed when the deposit is made. To reduce the risk of loss or misuse of funds, checks should be restrictively endorsed immediately upon receipt.
- B. The Court Clerk does not maintain a bond ledger and does not prepare monthly listings of open items (liabilities). A bond ledger indicating the applicable receipt and disbursement information is necessary to ensure proper accountability over bonds. Monthly listings of open items are necessary to ensure proper accountability over open cases and to ensure monies held in trust by the municipal division are sufficient to meet liabilities.
- C. The municipal division allows defendants to pay fines and court costs over a period of time. Defendants are required to sign a partial payment agreement form to document amounts owed and establish the subsequent payment schedule. However, a control ledger accounting for the amount assessed, payments received, and the balance due from each defendant has not been established. A control ledger would assist the municipal division in determining the correct balance due from each defendant and could aid in subsequent collection efforts.
- D. Neither the police department nor the municipal court division adequately account for all traffic tickets and complaint forms issued and the ultimate disposition. Seven of twenty-six tickets reviewed (twenty-seven percent) did not trace to a municipal division case file containing individual court dockets. A copy of one of these tickets could not be located in the police department. The municipal division was unable to provide supporting documents indicating the final disposition of the issued tickets. In addition, one confirmation was returned indicating that the ticket had been processed and fine and costs were paid at village hall.

Section 479.070, RSMo 2000, requires the proceedings of every case commenced before the court be entered on the docket. The Municipal Judge should ensure all cases are included on the court docket and document on the court docket any fines, sentences, or court orders. This ensures the proper disposition of all cases has been entered in the court records. In addition, Supreme Court Administrative

Rule 8 requires municipal ordinance case files be maintained three years after date of filing and 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 monies received.

- E. The court did not disburse the state's portion of the Crime Victims' Compensation (CVC) fees on a monthly basis. Receipts for the months of February through June 2001 were held in the court bank account and disbursed to the state in June 2001. In addition, receipts for July through October 2001 were not disbursed to the state director of revenue and remain in the municipal court bank account.

Section 595.045, RSMo 2000, requires these fees to be turned over to the state at least monthly.

- F. The municipal division does not file with the village a monthly report of all cases heard in court. Section 479.080.3, RSMo, requires the Court Clerk to prepare a monthly listing of all cases heard in court, including all fines and court costs collected, to be verified by the Court Clerk or Municipal Judge, and filed with the Village Clerk.

WE RECOMMEND the village of Bull Creek Municipal Division:

- A.1. Investigate the shortage of \$217 and take appropriate action.
 - 2. Require prenumbered receipt slips to be issued for all monies received, and ensure the numerical sequence of receipt slips is accounted for properly.
 - 3. Ensure the method of payment is recorded on each receipt slip and the composition of receipts is reconciled to the composition of bank deposits.
 - 4. Restrictively endorse all checks immediately upon receipt.
- B. Maintain a bond ledger, prepare monthly listings of open items, and reconcile the listings to the monies held in trust.
- C. Establish a control ledger and periodically reconcile it to the payment agreement forms.
- D. Ensure that case files are prepared for all tickets issued and final dispositions of cases are recorded on the court dockets. In addition, maintain all case records, and copies of all financial records in accordance with Supreme Court Administrative Rule 8.
- E. Remit CVC fees to the state monthly in accordance with state law.

- F. Prepare monthly reports of court actions and file these with the village in accordance with state law.

AUDITEE'S RESPONSE

We no longer have a police department (as of September 2001) and have not had a reason to hold court. If at some point we determine the need for a municipal court, we will implement the applicable recommendations. We will review the \$217 shortage and take appropriate action.

This report is intended for the information of the management of the village of Bull Creek, Missouri and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

VILLAGE OF BULL CREEK, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The village of Bull Creek is located in Taney County. The village was incorporated in 1993. The population of the village in 2000 was 225.

The village government consists of a five-member board of trustees. The trustees are elected for two-year terms. The chairman is appointed, and votes only in the case of a tie. The village trustees, and other principal officials at June 30, 2001, were:

Elected Officials	Term Expires	Compensation Paid for the Year Ended June 30, 2001	Amount of Bond
Reva Alden, Chairperson (1)	April 2002	\$ 0	\$ 5,000
Doris Compton, Trustee (2)	April 2002	0	
Gayle Daniel, Trustee (3)	April 2003	0	
Mary Mink, Trustee	April 2003	0	
LuAnn Schupp, Trustee (4)	April 2002	0	
<u>Other Principal Officials</u>			
Wayne Dabbs, Village Administrator (5)		30,945*	100,000
Carol Dabbs, Village Clerk (6)		0	
Dru Preator, Chief of Police (7)		7,146	
Charlie Fain, Village Attorney and Prosecutor		800	
Diana Long, Municipal Judge		1,200	

* Although social security and Medicare taxes totaling \$2,991 were withheld from Wayne's gross salary, these taxes were not remitted to the appropriate taxing authority.

- (1) George Sallee was appointed to replace Reva Alden in July 2001.
- (2) Georgia Applegate was appointed to replace Doris Compton in August 2001.
- (3) Sharon Swanson was appointed to replace Gayle Daniel in October 2001.
- (4) Richard "Creagh" Tucker was appointed to replace LuAnn Schupp in August 2001. Creagh has been performing all administrative duties of the village since December 2001.
- (5) Wayne Dabbs resigned in July 2001 and has not been replaced by the village.

(6) Carol Dabbs resigned in July 2001 and was replaced by Rick Smith. Rick served until August 2001 and was replaced by Deborah Wallace. Deborah resigned in December 2001.

(7) Dru Preator resigned in September 2001 and has not been replaced by the village.

Assessed valuations and tax rates for 2000 were as follows:

ASSESSED VALUATION

Real estate	\$297,740
Personal Property	141,610
Railroad and utilities	<u>18,024</u>
Total	<u>\$ 457,374</u>

TAX RATES PER \$100 ASSESSED VALUATION

	<u>Rate</u>
General Fund	\$.49

The village has the following sales tax; the rate is per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	\$.010	N/A

A summary of the village's financial activity for the year ended June 30, 2001, is presented below:

	General Fund	Utility Fund	Sewer Sales Tax Fund	DNR Sewer Fund	Court Fund	Total
RECEIPTS						
Sales taxes	\$ 4,224		118,667			122,891
Motor fuel and motor vehicle fees	6,492					6,492
Property taxes	2,111					2,111
Franchise taxes	803					803
Permits	455					455
Licenses	495					495
Proceeds from inspection services	9,000	3,000				12,000
User fees		43,473				43,473
Mowing fees		1,790				1,790
Reimbursement from sewer project			97,941			97,941
Interest			2,759			2,759
Fines					2,084	2,084
Bonds					1,038	1,038
Other	2,730	1,021				3,751
Transfers in	39,839	2,700	40,827			83,366
Total Receipts	<u>66,149</u>	<u>51,984</u>	<u>260,194</u>	<u>-</u>	<u>3,122</u>	<u>381,449</u>
DISBURSEMENTS						
Salaries and fringe benefits	31,604					31,604
Utilities	4,423	3,206				7,629
Loan payment	5,030		38,705			43,735
Office supplies	2,326		2,927		126	5,379
Police expenses	7,176					7,176
Attorney fees	1,200		11,670			12,870
Insurance	2,414					2,414
Road and park expenses	3,199					3,199
Sewer expenses		2,206	3,385			5,591
Trash removal		7,756				7,756
Labor		1,561				1,561
Postage		719			6	725
Bank service charges	215	252			58	525
Easements			10,141			10,141
Vehicle expenses			40,526			40,526
Professional services			55,000			55,000
State of Missouri					192	192
Other	5,795	1,126	1,354		160	8,435
Transfers out	1,860	34,690	8,009	36,267	2,540	83,366
Total Disbursements	<u>65,242</u>	<u>51,516</u>	<u>171,717</u>	<u>36,267</u>	<u>3,082</u>	<u>327,824</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	907	468	88,477	(36,267)	40	53,625
CASH AND CASH EQUIVALENTS, JULY 1,	<u>81</u>	<u>51</u>	<u>117,342</u>	<u>36,267</u>	<u>-</u>	<u>153,741</u>
CASH AND CASH EQUIVALENTS, JUNE 30,	\$ <u>988</u>	<u>519</u>	<u>205,819</u>	<u>-</u>	<u>40</u>	<u>207,366</u>