



Claire McCaskill

Missouri State Auditor

August 2006

City of Osborn

Year Ended March 31, 2005



Office Of
Missouri State Auditor
Claire McCaskill

August 2006

The following findings were included in our audit report on the City of Osborn, Missouri.

The city of Osborn has not prepared a cost study to support the water and sewer rates to ensure these user fees are established to cover the costs of providing these services. Without a current cost study to support the rate charged for water and sewer services, it is unclear whether the rate assessed for these services is set at an appropriate level.

The City Clerk performs all functions related to preparing the water and sewer bills, receipting and recording water and sewer payments and credit adjustments, depositing water and sewer receipts, monitoring accounts for delinquencies, and initiating service shutoff orders. No independent review of the City Clerk's work is performed. Records to account for water and sewer meter deposits are not reconciled with the cash balance in the water and sewer meter deposit bank accounts, and some water and sewer deposits collected did not agree with the amounts indicated on the signed water and sewer deposit agreement. Also, the city does not perform monthly reconciliations of total billings, payments received, and delinquent amounts for water and sewer services.

The City Clerk prepares checks for current bills throughout the month and presents them to the mayor for his signature, but only a listing of paid bills is provided to the board at their monthly meeting. In addition, the vendor invoices supporting payments are not typically presented to the Mayor or Board of Alderman for their review. Furthermore, employee wages are not always reported to the IRS properly and subjected to payroll tax withholdings and a cell phone usage policy has not been adopted.

The city does not have a formal bidding policy. The decision of whether to solicit bids and proposals for a particular purchase or a professional service is made on an item-by-item basis. Bids or proposals were not solicited for any of the expenditures we selected for testing, including a water/sewer extension project totaling over \$14,000.

Accounting duties are not adequately segregated and there is no independent oversight of the work performed by the City Clerk, who also serves as the City Treasurer. In addition, the City Clerk signs all checks and records all disbursements, performs bank reconciliations and prepares financial reports. Neither the board nor other personnel independent of the cash custody and record-keeping functions provide adequate supervision or review of the work performed by the City Clerk. Receipts slips are not issued for monies received, and documentation of bank reconciliations is not maintained.

YELLOW SHEET

Numerous errors and omissions were found in the record keeping of the City Clerk. Cash control ledgers were not complete and monthly financial reports were not prepared and presented to the board. In addition, numerous receipts were not posted to the ledgers, including some motor vehicle related revenues, grant proceeds, and bank interest.

The city's budgets lack information required by state law. Disbursements exceeded budgeted amounts by approximately \$11,700 and \$12,400 for the General Fund and Water and Sewer Fund, respectively, for the year ended March 31, 2005. The city did not prepare amended budgets for either fund, nor did the city set forth any reasons for exceeding the budgeted amounts in the board minutes or adopt a resolution authorizing the additional expenditures. Also, the city has not published semi-annual financial statements and has not obtained annual independent audits as required by state law.

The city has not established a separate fund or separate accounting for street receipts and disbursements and does not monitor the use of these funds. During the year ended March 31, 2005, the city deposited approximately \$15,800 in state motor vehicle-related receipts into the General Fund, but only spent approximately \$5,300 for identifiable street related purposes. In addition, the General Fund subsidized the Water and Sewer Fund by paying for various water and sewer expenditures. Justification for these subsidies was not maintained, and it is unclear whether these payments were intended as loans or subsidies.

Also included in the report are recommendations related to minutes and records, property taxes, capital assets, ordinances, and a street maintenance plan.

All reports are available on our website: www.auditor.mo.gov

CITY OF OSBORN

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
And
Board of Alderman
City of Osborn

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Osborn, Missouri. The scope of our audit of the city included, but was not necessarily limited to, the year ended March 31, 2005. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the

provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

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.

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

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



Claire McCaskill
State Auditor

February 10, 2006 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Todd M. Schuler, CPA
In-Charge Auditor: Tania Williams

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF OSBORN
MANAGEMENT ADVISORY REPORT –
STATE AUDITOR'S FINDINGS

1. Water and Sewer System

A cost study has not been prepared to support the water and sewer rate. In addition, duties have not been adequately segregated, meter deposits are not reconciled to their related cash balance, and a reconciliation of total billings, payments received and delinquent amounts is not performed.

- A. The city has not prepared a cost study to support the water and sewer rates to ensure these user fees are established to cover the costs of providing these services. In June 2002, United States Department of Agriculture (USDA) prepared a cost study for the city, but the city has not formally reviewed the adequacy of water and sewer rates since that time. Without a current cost study to support the rate charged for water and sewer services, it is unclear whether the rate assessed for these services is set at an appropriate level. The city should make efforts to establish user fees at a level consistent with the costs of providing only those services.

Section 67.042, RSMo, provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of the service. Water and sewer fees are user charges which should cover the cost of providing the related services, but rates should not be set at a level which results in excessive fund balances. The city should perform and document a detailed review of its water costs, including depreciation, and establish rates to cover the total costs of operations without generating excessive profits. Preparation of a statement of costs would allow the city to determine the rates necessary to support current and future operations as well as provide documentation to customers of the rationale behind the rates.

- B. The duties of cash custody and record keeping related to the water and sewer system are not adequately segregated. The City Clerk performs all functions related to preparing the water and sewer bills, receipting and recording water and sewer payments and credit adjustments, depositing water and sewer receipts, monitoring accounts for delinquencies, and initiating service shutoff orders. No independent review of the accounting records is performed.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of 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 accounting records.

- C. Records to account for water and sewer meter deposits are not reconciled with the cash balance in the water and sewer meter deposit bank accounts. In addition, water and sewer deposits collected do not agree with the amount recorded on the water and sewer deposit agreement. City residents are required to pay a refundable deposit for water and sewer service. Although the city water and sewer agreements indicate a deposit of \$75 was paid upon connection, varying amounts ranging from \$25 to \$75 have been collected in the past. Five of twelve signed water and sewer agreements we reviewed indicated \$75 was collected; however, the listing of water and sewer meter deposits indicated \$25 was collected. This listing is not periodically totaled and agreed to the balance of the bank account. The balance in the water meter deposit bank account totaled approximately \$10,200 as of March 31, 2005.

Preparing accurate listings of water and sewer deposits and agreeing the total with the reconciled cash balance monthly will provide assurance that sufficient assets exist to cover liabilities and all monies can be properly identified. Such reconciliations also allow for the prompt detection and correction of errors.

- D. The city does not perform monthly reconciliations of total billings, payments received, and delinquent amounts for water and sewer services. No one reviews or compares monthly statements with monthly reports of amounts billed to each customer, total deposits made, and cumulative delinquent balances for each applicable customer. At January 15, 2006, the city reported a total of \$1,789 was due from water and sewer customers, including delinquent penalties. Based on billing and collection data from May 2005, (when the new billing system was started) to January 15, 2006, it appears the January 15, 2006 receivable balance is overstated by approximately \$239.

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 reconciliations should be retained to support conclusions and any corrections made.

WE RECOMMEND the Board of Aldermen:

- A. Prepare a cost study for the water and sewer system and establish rates to ensure only the amount of revenue necessary to fund the system is collected.
- B. Segregate the duties of receiving and depositing monies from that of preparing bills, recording payments and following up on delinquent accounts. If this is not possible, at a minimum, procedures for adequate independent reviews should be established.

- C. Identify all water and sewer meter deposits held by the city and periodically reconcile these deposits to the water and sewer meter deposit bank account. In addition, the city should ensure the amount collected agrees to the amount indicated on the water and sewer deposit agreement.
- D. Perform monthly reconciliations of the amounts billed to amounts collected and delinquent accounts.

AUDITEE'S RESPONSE

- A. *We agree and will ensure a cost study is prepared by March 31, 2007.*
- B. *We will ensure an independent review of the records is performed.*
- C. *We are in the process of identifying the water and sewer deposit for each customer and updating the water and sewer deposit agreement.*
- D. *Effective August 2006 this will be done on a monthly basis.*

2.	Expenditures
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Bills are paid before the board reviews invoices and approves payments. The city did not take bids or proposals for some major purchases, did not issue 1099-MISC forms when required, and has not developed a cell phone usage policy.

- A. The board does not normally approve payments or review invoices before bills are paid. The City Clerk prepares checks for current bills throughout the month and presents them to the mayor for his signature, but only a listing of paid bills is provided to the board at their monthly meeting. In addition, the vendor invoices supporting payments are not typically presented to the Mayor or Board of Alderman for their review. Allowing payments to be made without board approval increases the likelihood that an improper payment will be made.

To adequately document the board's review and approval of all disbursements, a complete and detailed listing of invoices should be prepared, signed or initialed by the alderman to denote their approval, and retained with the official minutes. In addition, supporting documentation should be reviewed by the Board of Alderman before payment is made to ensure all disbursements represent valid operating costs of the city, are within budget, and funds are available for payment.

- B. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids and proposals for a particular purchase or a professional service is made on an item-by-item basis. Bids or proposals were not solicited for any of the expenditures we selected for testing, including a water/sewer extension project totaling over \$14,000 and property and liability insurance totaling

approximately \$5,500. In addition, the city paid an independent contractor approximately \$27,000 during the fiscal year ended March 31, 2005 for water and sewer maintenance services, but proposals were not solicited.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. In addition, soliciting proposals and entering into a truly competitive bidding process provides the city a means to select the contractor best suited to provide the service required. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bids, or by advertised sealed bids. Various approaches are appropriate, based on the dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the winning bid was selected.

- C. The City does not ensure all employee compensation is reported on a W-2 Form and subjected to proper tax withholdings. The city paid the City Clerk \$5,575 and the City Collector \$983 during the year ended March 31, 2005, but did not issue W-2 forms or withhold payroll taxes from these payments. Federal and state regulations require that proper withholdings be made from all salaries and wages and that gross wages be reported on a W-2 form.
- D. The city does not have a cell phone usage policy. The water superintendent is reimbursed \$30 a month for use of his personal cellular phone for city business; however, the city does not obtain or request any supporting documentation to justify the reimbursement. During our test work, documentation was requested to support a reimbursement made to the water superintendent to determine if the city is receiving sufficient benefit for its cost, but the request was denied. Without an itemized statement identifying any business calls, there is no assurance that the water superintendent is using his personal cellular phone for city business.

The Board of Aldermen should review the propriety of the usage of the cellular phones to determine whether the city is receiving sufficient benefit for its cost. If the cellular phones are deemed necessary, the board should establish a policy to ensure cellular phones are used only for reasonable business purposes. Such a policy should address which employees need a cellular phone, proper use of the phone, and a reimbursement policy if the board authorizes the phone to be used for personal matters. Procedures should be implemented to monitor cellular phone usage and review invoices for propriety.

WE RECOMMEND the Board of Alderman:

- A. Ensure the approval of all disbursements is adequately documented by including a listing of all disbursements in the board minutes, and requiring supporting documentation be reviewed by the board.

- B. Establish a formal bidding policy, including solicitation of proposals for professional services.
- C. Ensure payments totaling greater than \$600 are either considered wages and subjected to withholdings and proper reporting or are reported as payments to non-employees and unincorporated businesses and are properly reported to the Internal Revenue Service.
- D. Develop a formal written policy regarding the use of cellular phones and review invoices for propriety to ensure the city is receiving sufficient benefit for its cost.

AUDITEE'S RESPONSE

- A. *The Board will make every attempt to approve as many bills as possible before they are paid.*
- B. *We will establish a formal bidding policy by January 2007.*
- C. *We agree.*
- D. *We will assess the need for employees to use cell phones and develop a policy as we deem necessary.*

3.	Accounting Controls and Procedures
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Duties are not adequately segregated and there is no independent oversight of the City Clerk. Numerous weaknesses exist in receipt procedures and bank reconciliations.

- A. Accounting duties are not adequately segregated and there is no independent oversight of the work performed by the City Clerk. The City Clerk also serves as the City Treasurer, and is responsible for receiving, recording, and depositing of receipts. In addition, the City Clerk signs all checks and records all disbursements, performs bank reconciliations and prepares financial reports. Neither the board nor other personnel independent of the cash custody and record-keeping functions provide adequate supervision or review of the work performed by the City Clerk. Numerous errors and omissions were found in the cash control ledgers prepared by the City Clerk (see part D), which may have been detected had some oversight of her work been performed.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receipting and depositing monies from that of preparing bills, recording payments. If a proper segregation of duties cannot be achieved, at

a minimum, there should be an independent review of the reconciliations between the bank deposits and recorded payments.

- B. Receipts slips are not issued for monies received. Water and sewer payments received each week are listed on a transaction report, but the method of payment is not recorded and the total amount received is not reconciled to deposits. No record of individual receipts is maintained for the General Fund. Amounts deposited to both funds are posted to receipt and disbursement ledgers, but these ledgers are also incomplete (see part D). By failing to issue receipt slips for all monies received, there is less assurance that all monies have been properly posted to the accounting records and deposited.

To ensure receipts are handled properly, receipt slips should be issued for all monies received. In addition, the method of payment should be indicated on each receipt slip and the composition (cash and checks) should be reconciled to the composition of bank deposits.

- C. Documentation of bank reconciliations is not maintained. The City Clerk indicated she reconciled bank statement balances to her check book register monthly, but did not reconcile to the receipt and disbursement ledgers maintained for the Water and Sewer Fund and General Fund. Documentation of the reconciliation to the check book was not maintained and the failure to reconcile to the receipt and disbursement ledgers allowed the various errors described in part D to go undetected.

Monthly bank reconciliations and comparisons to financial statement balances are necessary to ensure accurate accounting and financial reporting and that any errors are detected and corrected on a timely basis.

- D. Cash control ledgers of receipts and disbursements for both general funds and sewer funds were not complete and monthly financial reports summarizing the financial activity were not prepared and presented to the board. In addition, the City Clerk did not post transactions to the ledgers timely. Numerous receipts were not posted to the ledgers, including some motor vehicle related revenues, grant proceeds, and bank interest. It appeared the City Clerk would occasionally attempt to bring the ledgers up to date by posting numerous transactions at once, sometimes not in date order. The City Clerk indicated the office is only open on Saturday mornings and she had to focus on posting water and sewer payments to the system and other financial duties and updated the ledgers when she found time. The ledgers included no monthly totals for receipts or disbursements, or monthly balances, which would allow them to be reconciled to bank activity to ensure their completeness.

Complete financial reports, showing receipts and disbursements and beginning and ending cash balances for each fund, would not only provide the board with

critical data necessary to make financial decisions, but help improve accountability over funds.

- E. Checks and money orders are not restrictively endorsed immediately upon receipt. A cash count revealed over forty checks, totaling approximately \$1,200, were on hand and had not been endorsed. Endorsements are applied when deposits are made. To adequately safeguard receipts, all checks and money orders should be restrictively endorsed immediately upon receipt.

WE RECOMMEND the Board of Aldermen:

- A. Segregate the duties of receiving and depositing monies from that of preparing bills, recording payments and following up on delinquent accounts. If this is not possible, at a minimum, procedures for adequate independent reviews should be established.
- B. Ensure pre-numbered receipt slips are issued for all monies received, the method of payment is indicated on all receipt slips and the composition of receipts is reconciled to the composition of bank deposits.
- C. Maintain documentation of monthly bank reconciliations.
- D. Ensure all transactions are recorded in the cash control ledgers and they are reconciled monthly with other financial records. In addition, prepare monthly financial reports summarizing receipts, disbursements, and changes in the cash balance of each fund and ensure these reports are reviewed by the board.
- E. Ensure checks and money orders are restrictively endorsed immediately upon receipt.

AUDITEE'S RESPONSE

- A. *We will ensure an independent review of the records is performed.*
- B. *We are already doing this.*
- C, D
&E. *We have already implemented these recommendations.*

4. Budgets and Financial Reporting

Numerous problems were noted regarding city budgets and financial reporting. The Board of Aldermen has not received enough information to monitor the budget and evaluate the financial position of the city's funds. In addition, the city does not prepare or publish semiannual financial statements and annual audits have not been obtained.

Annual financial reports were not filed with the State Auditor's Office on a timely basis, and the financial reports did not include all city monies and related financial activity.

A. The city's budgets are in need of improvement and do not contain some information required by state law. The budgets prepared for the years ended March 31, 2006 and 2005 did not include:

- A budget message.
- Information regarding the city's debt.
- Beginning and ending fund balances.
- Actual revenues and expenditures for the General Fund and Water/Sewer Fund for the preceding two years.

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

B. The city approved disbursements in excess of budgeted amounts. Disbursements exceeded budgeted amounts by approximately \$11,700 and \$12,400 for the General Fund and Water and Sewer Fund, respectively, for the year ended March 31, 2005. The city did not prepare amended budgets for either fund, nor did the city set forth any reasons for exceeding the budgeted amounts in the board minutes or adopt a resolution authorizing the additional expenditures. This overspending was caused, at least in part, because no comparison of budget to actual activity is performed.

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

C. The city has not published semi-annual financial statements and has not obtained annual independent audits as required by state law. A financial statement of receipt and disbursement activity has not been prepared semi-annually in recent years and the city has not obtained an independent audit since the year ended

March 31, 2000. In addition, financial reports filed with the State Auditor's Office were not complete and not filed on a timely basis. The 2005 financial report, which was due by July 31, 2005, was not filed until September, 2005, and did not include all city bank accounts and investments.

Section 79.160, RSMo, requires a statement of receipts and expenditures, as well as indebtedness, to be prepared semiannually. Section 250.150, RSMo 2000, requires the city to obtain annual audits of the combined waterworks and sewage system. Section 105.145, RSMo, requires the city to file a financial report with the State Auditor's Office annually.

WE RECOMMEND the Board of Aldermen:

- A. Prepare budgets for all funds of the city in accordance with state law.
- B. Periodically compare actual revenues and expenditures with budgeted amounts to monitor city finances and to ensure actual expenditures do not exceed budgeted amounts. If it is necessary to incur additional expenditures, a resolution setting forth the increase and reasons for such should be adopted before the additional expenditures are incurred.
- C. Require semi-annual financial statements be prepared and published and require an annual independent audit be performed of all city funds. In addition, financial reports filed with the State Auditor's Office should be complete and filed timely.

AUDITEE'S RESPONSE

- A. *We will ensure the fiscal year 2008 budget is prepared in accordance with state law.*
- B. *We are currently reviewing budget to actual activity on a monthly basis, and will ensure amendments are prepared if necessary.*
- C. *We will ensure semi annual financial statements are prepared and published in the future. We plan to get a financial audit done for the year ended March 31, 2006.*

5. Minutes and Records

City procedures for conducting and documenting closed meetings are not always done in compliance with state law, a policy regarding public access to city records has not been established, and minutes are not always signed by the city clerk and mayor.

- A. Improvement is needed in the handling of closed meetings. Numerous closed sessions were held by the board, but the various requirements in Chapter 610, RSMo (the Sunshine Law) regarding closed meetings were not always followed.

- The minutes of open meetings do not document the reasons for closing the meeting or the related vote.
- Some issues discussed in closed meetings did not appear to be allowable per the Sunshine Law. These topics included operating hours for city hall, fringe benefits for employees, such as health insurance and vacation, and the review and acceptance of mowing bids.
- While minutes of closed meetings are now required by state law (effective August 28, 2004), the city failed to provide minutes of several closed meetings held by the board after that date.
- Decisions made in closed meetings were not always properly disclosed in open meetings, or due to the lack of closed session minutes, it is not known whether any decision was properly disclosed.

City officials indicated they are aware of the Sunshine Law and once this topic was discussed with them, improvement was noted in their handling of closed meetings

The Sunshine Law, Chapter 610, RSMo, states the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open meeting and requires minutes be kept for all closed meetings. In addition, the Sunshine Law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote. The minutes should provide sufficient details of discussions to demonstrate compliance with statutory provisions and support important decisions made.

- B. The city does not have a formal policy regarding public access to city records. A formal policy regarding access and obtaining copies of city records would establish guidelines for the city to make the records available to the public. This policy should establish a contact person, an address for mailing such requests, and a cost for providing copies of public records.

Section 610.023, RSMo, lists requirements for making city records available to the public. The Sunshine Law states the fees for copying public records shall not exceed ten cents per page, with the hourly fee for duplicating time not to exceed the average hourly rate of pay for clerical staff of the public governmental body. Research time may be charged at the actual cost of time required to fulfill records requests.

- C. Board minutes, including minutes of closed meetings that were maintained, were not always signed by the city clerk and the mayor. The board minutes should be signed by the City Clerk as preparer and the Mayor upon approval to provide an

independent attestation that the minutes were a correct record of the matters discussed and actions taken during the board meetings.

WE RECOMMEND the Board of Aldermen:

- A. Ensure minutes document the vote to go into closed session, state the reasons for going into closed meetings and publicly disclose the final disposition of applicable matters discussed in closed meetings. In addition, minutes should be maintained to support all closed meetings and only allowable topics should be discussed in closed meetings.
- B. Develop written policies regarding procedures to obtain public access to, or copies of, public city records.
- C. Ensure board minutes are properly signed to attest to their accuracy.

AUDITEE'S RESPONSE

- A. *We have already taken steps to improve our handling of closed meetings and will ensure the regulations of the Sunshine Law are followed.*
- B. *We will develop a policy for public access to city records by October 2006.*
- C. *We will start doing this by August 2006.*

6.

Property Taxes

The City Collector does not provide the Board of Aldermen monthly or annual reports summarizing taxes collected, as well as those that remain delinquent. In addition, the City Clerk does not prepare the tax books, any additions and abatements of taxes are not reviewed by the board, and taxes are not distributed to the city treasury timely.

- A. The City Collector does not prepare and submit to the board a monthly or annual report of taxes collected, and delinquent tax lists are not reviewed and approved by the board. A report of taxes collected is submitted periodically to the City Clerk to receive commission payments, but these reports are not submitted to the board for review and approval. In addition, while a delinquent tax list was prepared by the City Collector in March 2005 and filed with the City Clerk, the Board of Aldermen did not review and approve the list. Due to the lack of reports of taxes collected and delinquent and lack of oversight by the board over tax collections, there is less assurance that all taxes were collected.

Sections 79.310, 94.320, and 94.330, RSMo 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. Monthly and annual reports which comply with state law 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, and protested amounts. Without such a report examined by the board, any errors or irregularities that might occur are likely to go undetected.

- B. The tax books are prepared by the City Collector and no independent verification of the tax book information or totals is performed by the City Clerk to ensure they are correct. Tax statements are prepared and mailed by the City Collector. In addition, the City Collector posts additions and abatements to the tax books without review or approval by the Board of Aldermen. Without this segregation of duties between the City Clerk and City Collector, the internal control over this process is weakened.

Section 94.290, RSMo, requires the City Clerk to prepare the tax books and charge the City Collector with the full amount of taxes levied. Verification of tax book information and totals is necessary to ensure the amount of taxes charged to the City Collector is complete and accurate. In addition, any changes to the tax books (additions or abatements) should be prepared by the City Clerk, approved by the Board of Aldermen, and charged to the City Collector.

WE RECOMMEND the Board of Aldermen:

- A. Require the City Collector to prepare and submit detailed monthly and annual reports of taxes collected and delinquent taxes and ensure these reports are reviewed and approved.
- B. Require the City Clerk to prepare the current tax books and charge the City Collector with the amount of taxes, or at a minimum, document procedures performed to verify the accuracy of the tax book totals. In addition, the City Clerk should prepare and the Board of Aldermen should approve all tax book additions and abatements.

AUDITEE'S RESPONSE

- A. *We will take steps to implement this by November 2006.*
- B. *The board will take this under advisement and decide what actions need to be taken.*

The city has not established a separate accounting for motor vehicle-related revenues and the General Fund has subsidized the Water and Sewer Fund.

- A. The city has not established a separate fund or separate accounting for street receipts and disbursements and does not monitor the use of these funds to ensure compliance with the Missouri Constitution. The city receives state motor vehicle-related revenues and deposits them into the General Fund. During the year ended March 31, 2005, the city deposited approximately \$15,800 in state motor vehicle-related receipts into the General Fund, but only spent approximately \$5,300 for identifiable street related purposes.

Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related receipts apportioned by the state of Missouri be expended for street-related purposes only including policing, signing, lighting, and cleaning of roads and streets. To ensure compliance with the Missouri Constitution, the city should maintain a separate fund or separate accounting of motor vehicle-related receipts and ensure these receipts are used only for the purposes allowed by the constitution. The unspent balance of street revenues should be accounted for separately along with future receipts.

- B. The General Fund subsidized the Water and Sewer Fund by paying for various water and sewer expenditures and justification for these subsidies was not maintained. While the cash balance of the Water and Sewer Fund at March 31, 2005 was approximately \$115,000, the majority of this balance was invested in certificates of deposit and was not available for spending. Consequently, the board approved numerous expenditures from the General Fund related to water and sewer services and it is unclear whether these payments were intended as a loan or subsidy. If the board intends to use General Fund monies in the future for water and sewer related expenditures, they should clearly document if they intend these monies to be repaid and the reasons for the subsidy.

Revenues of the Water and Sewer Fund represent user charges which are intended to cover the cost of providing the related services. The board should reevaluate the need for future subsidies and ensure adequate documentation is maintained to support these type transactions. The funds of the city are established as separate accounting entities to account for specific activities of the city. Reflecting expenses in the proper fund is necessary to accurately determine the results of operations and/or specific activities; thus, enabling the city to establish the level of taxation and/or user charges necessary to meet operating costs.

WE RECOMMEND the Board of Aldermen:

- A. Establish the necessary records to account for those monies restricted for specified purposes and allocate expenditures to the appropriate funds.
- B. Clearly document the reasons for subsidizing the Water and Sewer Fund and evaluate the need for future subsidies.

AUDITEE'S RESPONSE

- A. *The Board has already established a street fund to account for these receipts and disbursements.*
- B. *We will consider repaying these monies to the General Fund and will ensure expenses are paid from the proper fund in the future.*

8.

Capital Assets

The city has not prepared and maintained permanent, detailed property records for capital assets, including the cost of land, buildings, equipment, and furniture owned by the city. Also, annual physical inventories are not performed and standard fuel logs are not maintained for city owned vehicles.

- A. The city has not prepared and maintained permanent, detailed property records for capital assets, including the cost of land, buildings, equipment, and furniture owned by the city, or the assets of the water and sewer system. In addition, annual physical inventories have not been performed. Without property records for capital assets, accountability for all items purchased and owned are lessened and there is no documentation for determining the proper amount of insurance coverage.

To develop appropriate records and procedures for capital assets of the city and water and sewer systems, 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 capital asset transactions, and ensure the accuracy of the recorded capital assets. In addition, the city should periodically take physical counts of its assets and compare to the detailed records.

- B. The city does not maintain usage logs, including maintenance information and fuel usage, for its two vehicles. Fuel is purchased using a charge card at a local gas station, and fuel purchases during the year ended March 31, 2005 totaled approximately \$600. A monthly billing is received from the gas station, but the individual charge receipts are not compared to the invoice. Without adequate

usage logs, the district cannot effectively monitor that vehicles are used for official business only, that maintenance and fuel costs for vehicles are reasonable, and that fuel and maintenance billings to the district represent legitimate and appropriate charges.

Usage logs are necessary to document appropriate use of the vehicles and equipment and to support fuel and other charges. The logs should include the purpose and destination of each trip, beginning and ending odometer readings or hours of usage as applicable, and all operation and maintenance costs. Supervisory reviews of the logs should be performed to ensure vehicles and equipment are used only for city business and are being properly utilized, and to help identify vehicles and equipment that should be replaced. Information on the logs should be periodically reconciled to applicable expenditure records to help identify and prevent inappropriate fuel purchases or other maintenance and operating charges.

WE RECOMMEND the Board of Aldermen:

- A. Establish property records for general fixed assets that record all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent transactions. In addition, the city should properly tag or otherwise identify all city property and conduct physical inventories for comparison to the property records.
- B. Require vehicle usage logs be maintained and periodically reviewed by a supervisor. In addition, fuel purchases should be recorded in the log and periodically reconciled to applicable expenditure records.

AUDITEE'S RESPONSE

- A. *We will prepare records of our capital assets by March 31, 2007, and we will ensure annual inventories are performed in the future.*
- B. *We will ensure these usage logs are maintained, including fuel purchases, in the future.*

9.

Ordinances

Improvement is needed in the organization of the city's ordinances. The city's ordinances have not been codified, thus hindering the city's ability to locate specific ordinances. At least one ordinance passed by the Board of Alderman could not be located. In addition, the city has not adopted or updated ordinances to address issues required by state law and/or needed to govern the city.

- We selected four ordinances referred to in board minutes, but could only locate three in the ordinance book.

- An ordinance establishing rates, assessment of late fees for delinquent payments, reconnection fees, and deposit amounts for water and sewer services has not been adopted. The City Clerk indicated the city's current practices are to assess a 5% late fee on bills paid after the 15th of the month, collect a \$25 re-connect fee for the first disconnection and \$100 re-connect fee for any disconnections thereafter, and collect a \$75 water and sewer deposit.
- An ordinance establishing compensation for elected officials is not current. The compensation ordinance the city has filed indicated the Mayor and aldermen may receive \$5 per meeting; however, the Mayor and aldermen received \$10 per meeting during year ended March 31, 2005. In addition, the city has not adopted an ordinance establishing compensation for the city clerk, as well as the term of office and duties, as required by law.

To ensure equitable treatment of all water customers, the board should establish an ordinance establishing the reconnection fee and water deposit amounts, which the city is already assessing and collecting. Compensation rates set by ordinance, in addition to meeting statutory requirements, document the approved amounts to be paid and eliminate potential misunderstandings on the amount each city official and employee is to receive, and is necessary to ensure the compensation of an official is not changed during the term of office. Since ordinances represent legislation which has been passed by the board to govern the city and its residents, it is important that the city's ordinances be maintained in a complete and up-to-date manner.

WE RECOMMEND the Board of Aldermen update and codify the city's ordinances, ensure a complete set of ordinances is maintained, and establish an index of all city ordinances passed and rescinded. In addition, the Board should establish ordinances regarding the assessment of late fees for delinquent utility payments and property taxes, reconnection fees, and water deposit amount. Furthermore, establish or update ordinances setting the compensation and duties for all elected and appointed officials and employees as required by state law.

AUDITEE'S RESPONSE

We will research this issue and attempt to update the ordinance book by March 31, 2007.

10.	Street Maintenance Plan
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A formal maintenance plan for city streets has not been prepared annually. The city spent approximately \$5,300 on identifiable street related expenditures during the year ended March 31, 2005. A maintenance plan should be prepared in conjunction with the annual 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 city residents.

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

WE RECOMMEND the Board of Aldermen prepare a formal maintenance plan for the city streets at the beginning of the 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.

AUDITEE'S RESPONSE

We will prepare a maintenance plan for city streets by March 31, 2007.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF OSBORN, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Osborn is located in DeKalb and Clinton counties. The city was incorporated in 1887 and is currently a fourth-class city. The population of the city in 2004 was 451.

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended March 31, 2005 are identified below. The Mayor and Board of Aldermen are paid \$10 per meeting. The compensation of these officials is not established by ordinance.

Elected Officials	Dates of Service During the Year Ended March 31, 2005	Compensation Paid for the Year Ended March 31, 2005
Brice Hamann, Mayor (1)	October 2004 to March 2005	\$ 130
Rodney Hankins, Mayor	April 2004 to October 2004	80
Jerry Bestgen, Alderman (2)	April 2004 to March 2005	170
Rick Uthe, Alderman (3)	November 2004 to March 2005	80
Brice Hamann, Alderman	April 2004 to October 2004	70
David Enloe, Alderman (4)	October 2004 to March 2005	90
Joel Hummel, Alderman	April 2004 to October 2004	80
Sherri Grey, Alderwoman (5)	November 2004 to March 2005	70
Gary Marshall, Alderman	April 2004 to July 2004	70

Other Principal Officials	Dates of Service During the Year Ended March 31, 2005	Compensation Paid for the Year Ended March 31, 2005
Pam Hoggatt, City Clerk (6)	April 2004 to March 2005	\$ 5,575
Paula George, Collector	April 2004 to March 2005	983
Ed Procter, City Attorney	April 2004 to April 2004	86
Miller Robinson, City Attorney	May 2004 to March 2005	315

- (1) Michael Meek was elected in April 2005. Resigned in August 2005 and Norman Baumgarden was appointed in September 2005. Brice Hamann was elected to a one year term in April 2006.
- (2) Elected in April 2006
- (3) Elected in April 2005.
- (4) Terry Dierenfeldt was elected to a two year term in April 2005.
- (5) Elected to a one year term in April 2005. Norman Baumgarden was elected in April 2006.
- (6) Resigned in March 2006. Kristie Smith was appointed in April 2006.

In addition to the officials identified above, the city employed one full-time employee and one part-time employee on March 31, 2005.

Assessed valuations and tax rates for 2005 were as follows:

ASSESSED VALUATIONS

Real estate	\$ 1,942,680
Personal property	803,675
Railroad and utility	281,668
 Total	 <u>\$ 3,028,023</u>

TAX RATE PER \$100 ASSESSED VALUATION

	<u>Rate</u>
General Fund	\$.7561

A summary of the city's financial activity for the year ended March 31, 2005, is presented below:

	General, Street Fund	Water Replacement & Extension Fund	Water Bond Reserve Fund	Water & Sewer Fund	Total
RECEIPTS	\$				
Water /sewer fees	0	0	0	79,321	79,321
Water/sewer deposits	0	0	0	74	74
Grant	0	0	0	32,000	32,000
Interest	4,083	0	0	3,303	7,386
Taxes	28,408	0	0	0	28,408
Road fees	19,020	0	0	0	19,020
Franchise fees	14,944	0	0	0	14,944
Poll rent	75	0	0	0	75
Tubes/Rock	544	0	0	0	544
Miscellaneous	47	0	0	0	47
Water/Sewer installation	9,843	0	0	0	9,843
Insurance proceeds	0	0	0	4,727	4,727
Transfer In	0	1,768	1,768	7,000	10,536
Total Receipts	<u>76,964</u>	<u>1,768</u>	<u>1,768</u>	<u>126,425</u>	<u>206,925</u>
DISBURSEMENTS					
Vehicle expenses	608	0	0	0	608
Postage	0	0	0	528	528
Printing	0	0	0	254	254
Utilities	3,930	0	0	4,725	8,654
Salaries	3,275	0	0	3,135	6,410
Payroll Taxes	1,326	0	0	604	1,930
Repair and maintainace	17,533	0	0	3,382	20,915
Insurance	6,038	0	0	0	6,038
Contract laborer	1,655	0	0	33,263	34,917
Loan payments	0	0	0	15,017	15,017
Water/Sewer extension	0	0	0	61,291	61,291
Election costs	2,352	0	0	0	2,352
Rock	991	0	0	181	1,172
Street lights	4,223	0	0	0	4,223
Mowing	5,758	0	0	0	5,758
Legal	860	0	0	0	860
Tubes	98	0	0	0	98
Miscellaneous	2,095	0	0	470	2,565
Transfers Out	7,544	0	0	2,992	10,536
Total Disbursements	<u>58,283</u>	<u>0</u>	<u>0</u>	<u>125,841</u>	<u>184,125</u>
Receipts Over (Under) Disbursements	18,680	1,768	1,768	583	22,800
Cash April 1, 2004	183,199	508	508	115,051	299,266
Cash March 31, 2005	<u>\$ 201,879</u>	<u>2,276</u>	<u>2,276</u>	<u>115,634</u>	<u>322,065</u>