



Susan Montee, CPA

Missouri State Auditor

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September 2007

City of Lawson

Year Ended June 30, 2006



Office Of  
Missouri State Auditor  
Susan Montee, CPA

September 2007

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

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The city of Lawson is in poor financial condition as a result of numerous internal control weaknesses; cash flow deficits; inefficient management practices; and inadequate controls over expenditures, as well as the theft of over \$96,000 by the former City Clerk. In August 2006, the city was contacted by its bank and informed that the general checking account was negative and most of the other restricted accounts established related to bond issues had been depleted. During the three years ended June 30, 2006, General Fund expenditures exceeded revenues by approximately \$600,000, causing the fund balance to go from approximately \$700,000 down to approximately \$99,000. During the same time period, the proprietary fund had a net loss of approximately \$373,000. The city had to secure over \$289,000 of tax anticipation notes to fund normal operating expenditures in August 2006.

Unauthorized disbursements totaling almost \$94,000 were made by the former City Clerk to herself and approximately \$2,500 in unauthorized purchases were charged to the city credit card for her personal benefit. The fraudulent transactions made by the former City Clerk occurred between 2003 and 2006 and included duplicate payroll checks for the same period that were issued on several occasions. In addition, the former City Clerk processed payments directly to herself but posted the disbursements to the computer as vendor payments. Although the city bank accounts require two signatures, the former City Clerk was apparently able to falsify signatures on the improper checks. Charges were filed against the former City Clerk and she was found guilty of felony stealing and forgery in Ray County Circuit Court and was sentenced to the Department of Corrections. She was also ordered to pay restitution.

There were also two unauthorized payments made to the former City Administrator in March 2006 totaling over \$4,300. These payments were included in two separate checks written as payments for unused leave; however, both checks included a payroll distribution that had already been paid for the same period. These duplicate payroll distributions were subsequently questioned and repaid in November 2006.

The city has not established separate funds nor accounting records for restricted receipts to ensure they are expended only for their intended purpose. All of the city's financial transactions are commingled in one accounting system and the system does not provide for segregation of activities by fund such as a General Fund, Utility (water-sewer-trash) Fund, Street Fund, or various other funds. The city primarily uses one bank account for most general and operating receipts and disbursements, but does maintain other bank accounts for certain types of receipts, such as bond and grant proceeds, court appearance bonds, and police department donations. Many of these other bank accounts were depleted by June 30, 2006, as a result of transfers to the city's general bank account.

(over)

YELLOW SHEET

There is no independent oversight or adequate segregation of duties related to the City Clerk's office and there is no evidence the various reports provided to the board periodically are reviewed for accuracy. The lack of oversight provided by either the City Administrator or the Board of Alderman has allowed the city's financial condition to seriously decline in the last several years without detection. Adequate controls over disbursements did not exist and an independent review of the composition of receipts to deposits was not performed. Controls over the city's bank accounts, bank statements, bank reconciliations, and subsidiary accounts receivable records for water and sewer accounts, property taxes, and municipal court transactions need to be improved. In addition, monthly open items (liabilities) for the municipal court bond account are not prepared.

The city did not adopt a procurement policy until February 2007 and although the city administrator indicated it was the city's practice to bid purchases exceeding \$2,000, bid documentation could not be located for numerous expenditures and the evaluation process for selecting the successful vendor was often not documented. In addition, the city did not have written contracts with all vendors, supporting documentation was not adequate for some expenditures, and numerous invoices were not paid timely.

Budgets prepared the last two years did not present financial information by fund or include several other required components and the budgets are not used to monitor revenues and expenditures throughout the year. In addition, semi-annual financial statements have not been published as required and annual financial reports have not been filed with the State Auditor's office as required by state law.

The city has not performed and documented formal reviews of the adequacy of the water, sewer, and trash user rates. The former City Administrator indicated he calculated the rates informally but had not retained information on the calculations. The Board of Alderman raised water and sewer rates between June 2005 and June 2006 by 30 percent. However, there is no documentation to support the board's decisions or justification for these rate increases.

The city has not properly monitored an agreement with a contractor for the construction, operation, and maintenance of a golf course.

Also included in the report are recommendations related to bond and grant administration, minutes, board meetings, ordinances, and public records, capital assets and vehicle usage, and a street maintenance plan.

**All reports are available on our website: [www.auditor.mo.gov](http://www.auditor.mo.gov)**

CITY OF LAWSON, MISSOURI

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STATE AUDITOR'S REPORT



**SUSAN MONTEE, CPA**  
**Missouri State Auditor**

To the Honorable Mayor  
And  
Board of Aldermen  
City of Lawson  
Lawson, Missouri 64062

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Lawson, Missouri. The scope of our audit of the city included, but was not necessarily limited to, the year ended June 30, 2006. 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 work for this audit was substantially completed by April 2007.

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 Lawson, Missouri.



Susan Montee, CPA  
State Auditor

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:  | Gayle A. Garrison     |
| Audit Staff:        | Brian S. Huff         |

MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

CITY OF LAWSON, MISSOURI  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

**1. Financial Condition**

The city of Lawson is in poor financial condition as a result of various factors. Numerous internal control weaknesses; cash flow deficits; inefficient management practices; and inadequate controls over expenditures, as well as the theft of over \$96,000 by the former City Clerk, contributed to the poor financial condition of the city. Because of the financial problems and cash flow deficits, the city transferred approximately \$360,000 of general obligation bond proceeds in May and August 2005 to the city's general checking account. Although the bond proceeds were designated for street improvements, it does not appear that the monies were expended for the designated purposes, but were used to fund normal operating expenses of the city.

In August 2006, the city was contacted by its depository bank and informed that the general checking account was negative and most of the other restricted accounts established related to bond issues had been depleted. At that time, the city discovered approximately \$100,000 in unpaid invoices and had to secure over \$289,000 of tax anticipation notes to fund normal operating expenses.

During the three years ended June 30, 2006, General Fund expenditures exceeded revenues by approximately \$600,000, causing the fund balance to go from approximately \$700,000 down to approximately \$99,000. During the same period, the proprietary fund (Water, Sewer, and Trash Fund) had a net loss of approximately \$373,000, before receiving transfers totaling approximately \$195,000 from the General Fund.

Inadequate procedures and internal control weaknesses have inhibited the Board of Aldermen's ability to effectively monitor and manage the city and have resulted in the problems noted above. The board should review disbursements and reduce discretionary spending as much as possible.

The board must monitor the financial condition of the city and develop a long range plan which will allow the city to reduce its disbursements and/or increase receipts to operate within its available resources. The recommendations contained in the remaining MARs, if implemented, will help the city establish procedures to operate within its available resources.

**WE RECOMMEND** the Board of Aldermen develop a long term plan to operate within its available resources. In addition, the board must closely monitor the financial condition of the city by preparing a detailed operating budget and periodically comparing budgeted and actual receipts and disbursements. Finally, the city should repay the \$360,000 transferred improperly from the general obligation bond construction funds to the general checking account.

**AUDITEE'S RESPONSE**

*A finance committee has been established to prepare a long term plan to operate the city within available resources. The board and the finance committee will monitor the financial condition of the city. Comprehensive operating budgets will be prepared to address the operating costs, debt retirement needs, and available resources of the city. The long term plan will address funds borrowed from the general obligation bond.*

|                                 |
|---------------------------------|
| <b>2. Improper Transactions</b> |
|---------------------------------|

Unauthorized disbursements totaling almost \$94,000 were made by the former City Clerk to herself and approximately \$2,500 in unauthorized purchases were charged to the city credit card for her personal benefit. In addition, two unauthorized payments were made to the former City Administrator totaling over \$4,300.

|                       | City<br>Administrator | City<br>Clerk |
|-----------------------|-----------------------|---------------|
| Payroll               | \$ 4,357              | 10,407        |
| Direct disbursements  | 0                     | 83,508        |
| Credit card purchases | 0                     | 2,581         |
|                       | 4,357                 | 96,496        |
| Repayments            | (4,357)               | (8,500)       |
|                       | \$ 0                  | 87,996        |

The fraudulent transactions made by the former City Clerk occurred between 2003 and 2006 and included duplicate payroll checks for the same period which were issued on several occasions. In addition, the former City Clerk processed payments directly to herself but posted the disbursements to the computer as vendor payments. Although the city bank accounts require two signatures, the former City Clerk was apparently able to falsify signatures on the improper checks. As noted in the chart above, \$8,500 appears to have been repaid to the city, which was identified by the independent auditor, although city personnel were unaware of these repayments. Finally, the lack of credit card controls allowed the former City Clerk to charge items to the city credit card. Charges were filed against the former City Clerk and she was found guilty of felony stealing and forgery in Ray County Circuit Court and was sentenced to the Department of Corrections. She was also ordered to pay restitution.

The unauthorized payments to the former City Administrator were included in two separate checks written as payments for unused leave in March 2006. However, both checks included a payroll distribution that had already been paid for the same period. The duplicate payroll distributions totaling \$4,357 were questioned by the independent auditor and repaid by the former City Administrator in November 2006.

These improper transactions were not detected by the city due to the lack of adequate internal controls over disbursements, which are discussed more fully in MAR finding numbers 3 and 4.

**WE RECOMMEND** the Board of Aldermen review the salary overpayments and improper transactions and work with law enforcement officials to obtain restitution of the remaining amounts due the city. In addition, the board should develop adequate review procedures for authorizing disbursements.

**AUDITEE'S RESPONSE**

*The former City Clerk has been prosecuted and ordered to pay full restitution. Procedures have been established to oversee the disbursement process.*

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

Significant problems were identified in the control procedures used to account for transactions including a lack of accountability for restricted monies and a lack of segregation of duties or independent reviews over receipts, disbursements, banking, or accounting records. Receipts are not issued for some monies received; the numerical sequence of receipts was not accounted for; some checks were issued without proper authority; and bank account reconciliations, transactions, and some balances were not adequately monitored. In addition, accounts receivable records were not subject to an independent review. Finally, monthly open items listings are not prepared for the court account and reconciled to the cash balance.

A. The city has not established separate funds or accounting records for restricted receipts to ensure they are expended only for their intended purpose. During the year ended June 30, 2006, the city's receipts for restricted purposes included:

| Receipt type                                       | Restricted purpose                        | Receipts:<br>Year ended<br>June 30, 2006 |
|--|---|--|
| Sales taxes  | Capital improvements                      | \$ 102,000                               |
| Property taxes                                     | General obligation<br>debt retirement     | 102,000                                  |
| Utility service revenues                           | Utility operations and<br>debt retirement | 735,000                                  |
| Motor vehicle revenues<br>distributed by the state | Street purposes<br>including patrolling   | 95,000                                   |

In addition, other restricted revenues are received for crime victim's compensation, police officer standards training, and law enforcement training.

The city's accounting system does not provide for separate accounting of these funds and the city has no other means of ensuring these restricted funds are spent for their intended purpose.

All of the city's financial transactions are commingled in one accounting system and the system does not provide for segregation of activities by fund such as a General Fund, Utility (water-sewer-trash) Fund, Street Fund, or various other funds. The city primarily uses one bank account for most general and operating receipts and disbursements, but does maintain various other bank accounts for certain types of receipts, such as bond and grant proceeds, court appearance bonds, and police department donations. Many of these other bank accounts were not used for their intended purpose and were depleted by June 30, 2006, as a result of transfers to the city's general bank account. Because financial and banking records commingle various restricted revenues, the city cannot adequately demonstrate that restricted revenues have been used for restricted purposes and cannot determine a balance of funds available for restricted purposes.

Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related revenues apportioned by the state of Missouri be expended for street related purposes including policing. Section 250.150, RSMo, requires the revenues of a water and sewer system be segregated from all other revenues or funds of the city, as do the bond covenants. Because the city does not separately account for restricted revenues, they are not able to demonstrate compliance with the related legal and contractual requirements.

- B. There is no independent oversight or adequate segregation of duties related to the City Clerk's office. Her duties include receiving and depositing monies, recording receipts and disbursements, preparing and distributing checks, maintaining payroll records, preparing and distributing monthly utility billings, and preparing monthly bank reconciliations. Additionally, the former City Clerk and Assistant City Clerk signed checks.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are properly accounted for and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. If proper segregation of duties is not possible, timely supervisory or independent review of the work performed and investigation into unusual items and variances is necessary.

The fraudulent transactions and the city's poor financial condition noted in MAR finding numbers 1 and 2 may have been detected and corrected on a timely basis if independent reviews had been performed.

- C. There was no evidence the City Administrator or Board of Aldermen provided adequate supervision or review of the work performed by the City Clerk's office.

Various reports were provided to the board periodically for review; however, the reports were not verified for accuracy. These reports were inadequate to provide sufficient information to support various board decisions as they did not include key information such as available budget or cash balances. The lack of oversight provided by either the City Administrator or the Board of Alderman has allowed the city's financial condition to seriously decline in the last several years without detection.

The Board of Alderman needs to take steps to ensure they are adequately monitoring the activities of city personnel, as well as the financial position of the city funds. Good management practices require extensive and detailed oversight by the board.

- D. Adequate controls over disbursements did not exist resulting in \$96,000 being misappropriated. Reviews of disbursements by the former City Administrator and the Board of Aldermen were apparently insufficient to ensure that disbursements were valid, properly approved, and agreed with information in the accounting system. Disbursements checks were prepared by the City Clerk or Assistant City Clerk and a listing of disbursements was provided to the Board of Aldermen for approval. However, the listing provided to the board did not include check numbers and none of the board members or City Administrator compared the payments on the listing to actual invoices and the entries posted to the computer to ensure that all disbursements were reported to the board. Although physical reviews were occasionally performed by the former City Administrator of specific checks prepared by the former City Clerk, a detailed review and accounting of each check issued by the city was not performed. There has been very little improvement in this process since the time of the misappropriation.

The fraudulent transactions made by the former City Clerk included payments to herself, but posted to the computer as vendor payments. Preparation of a detailed listing of each check issued for review and approval by the City Administrator and Board of Aldermen and verification of agreement between the checks written and information recorded in the accounting system could have detected the fraudulent transactions in a timely manner. Our review also identified several payments posted by the City Clerk's office as disbursements in the accounting records; however, the checks were not actually issued, resulting in insufficient payments to the federal government for payroll taxes and the city's deferred compensation program administrator. While the city has brought their deferred compensation program payments up-to-date, they still owe the federal government over \$30,000 in delinquent payroll taxes.

To adequately document the review and approval of all disbursements, the numerical sequence of disbursements prepared by the city clerk's office should be accounted for; disbursements should be agreed with information in the accounting system; and a complete and detailed listing of bills should be prepared, signed or

initialed by the aldermen to denote their approval, and retained with the official minutes.

- E. An independent review of the composition of receipts to deposits was not performed. The city's primary sources of receipts are utility payments, property taxes, court fines, permits, and grants. While manual receipt slips are issued for receipts other than property taxes and utility payments, a comparison of receipt slips issued to amounts deposited was not performed. Utility stubs and property tax statements are retained for those type payments, but again, a comparison of the original record of receipt is not compared to deposits. The Assistant City Clerk and the Utility System/Municipal Court Clerk are primarily responsible for receiving and recording payments and preparing and transporting deposits to the bank. However, an independent comparison of the composition of amounts received to amounts deposited, or a cross check of each others work, is not performed.

To ensure the proper handling and safeguarding of city monies, receipt records should be reconciled to bank deposits by an independent person, including the composition of cash and checks received.

- F. Controls over the city's bank accounts, bank statements, and bank reconciliations need to be improved. Bank statements are received by the City Clerk's office and bank reconciliations are prepared by the same staff who prepare, sign, and distribute checks. In addition, two bank accounts were held by the police department.

The bank statements included copies of the checks issued by the City Clerk's office, including the fraudulent checks discussed in MAR finding number 2; however, the transactions were not detected because the former City Administrator did not perform reviews of the bank statements or the monthly reconciliations. In addition, some Alderman indicated cash balances were periodically reported to the Board of Aldermen verbally by the former City Clerk; however, there was no verification of those reported balances. As a result, the improper transactions and the city's declining cash balance remained undetected because financial activities were not properly supervised.

Internal controls should provide for reasonable assurances that all transactions are accounted for properly, and assets are adequately safeguarded. A thorough review of the bank statements would have detected the fraudulent activity in a timely manner and would have detected the city's cash flow shortage.

- G. Controls over subsidiary accounts receivable records for water and sewer accounts, property taxes, and municipal court transactions need to be improved. Various reconciliations are not performed to ensure the accuracy of the subsidiary accounting records. In addition, there are no independent reviews of the various subsidiary accounting records to ensure that amounts the clerks are charged with

collecting are appropriately received and recorded or that credit adjustments are proper.

- Periodic reconciliations are not performed of the subsidiary records for the water and sewer accounts, municipal court, or special assessments to ensure the beginning receivable balance adjusted for receipts, judgments/billings, and authorized adjustments reconciles to the ending receivable balance.
- Ending account receivable balances of the municipal court and special assessments are not reconciled to the detail account balances.
- Although a monthly reconciliation of the property tax receivable balance is performed and agreed to the detail account balances, it is not reviewed by an independent person.
- Written policies and procedures do not exist to provide for controls and independent approvals of adjustments to account balances.

To safeguard against possible loss or misuse of funds, various reports and reconciliations should be prepared for the city's subsidiary accounts receivable systems and reviewed by the city administrator.

- H. Monthly listings of open items (liabilities) for the municipal court bond account are not prepared and reconciled to the available cash balance. As a result, the municipal court could not ensure the amounts being held were sufficient to cover the liabilities. The bond bank account had an unidentified balance of \$1,703 on March 31, 2007.

A monthly listing of open items is necessary to ensure accountability over open cases and to ensure monies held in trust by the municipal court are sufficient to meet liabilities. Also, for unidentified bond monies, an attempt should be made to determine the proper disposition of these monies. A review should be made of any bonds posted by persons who failed to make the required court appearance to determine if the bonds should be forfeited and monies paid over to the city treasury as provided by Section 479.210, RSMo. For those bonds which relate to closed cases, Sections 447.500 through 447.595, RSMo, which relate to unclaimed property, should be used to disburse these monies.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish the necessary records to account for those monies restricted for specified purposes.
- B. Segregate the duties of the City Clerk's office to the extent possible. If proper segregation of duties cannot be achieved, timely supervision or independent review of the work performed and investigation into unusual items and variances is necessary.

- C. Verify the accuracy of reports provided to the board and ensure the reports include sufficient information to support various board decisions and provide for adequate monitoring of the city's financial activities and financial position.
- D. Verify the numerical sequence of disbursements, perform physical reviews of the checks written, ensure disbursements agree to the accounting records, and sign off on a complete and detailed listing of bills approved which is retained with the official board minutes.
- E. Ensure all receipts are reconciled to bank deposits by an independent person, including verification of the composition of cash and checks received to the composition of cash and checks deposited.
- F. Ensure all bank accounts are held by the City Clerk's office, bank statements are received and reviewed by an independent person, and bank reconciliations and reported cash balances are verified for accuracy.
- G. Ensure adequate reports and reconciliations are prepared for the city's subsidiary accounts receivable systems and provide for adequate segregations of duties. If proper segregation of duties cannot be achieved, timely supervision or independent review of the work performed and investigation into unusual items and variances is necessary.
- H. Require the Court Clerk to prepare monthly listings of open items and reconcile the listing to the monies held by the municipal court. Also, follow up on all bonds held for more than one year, and dispose of bonds in accordance with state law.

**AUDITEE'S RESPONSE**

- A. *A fund accounting system has been implemented with the assistance of an independent CPA to account for monies restricted for specific purposes.*
- B&C. *We are in the process of developing oversight procedures for our employees and determining the financial reports necessary for the board and the finance committee to adequately monitor the city's financial position and will develop procedures to ensure the accuracy of the reports.*
- D. *Detailed disbursement reports will be prepared for the board's review and filed with the minutes after approval. The invoices will be reviewed by the supervisory individuals who sign checks.*
- E,F  
&G. *We agree and will begin doing these.*
- H. *We have identified the payees for the unidentified funds and will pay the funds to those individuals. We will begin preparing monthly reconciliations.*

**4.****Expenditures**

Bids were not always solicited and contracts were not always obtained, supporting documentation for expenditures did not always include an adequate invoice or indication of the receipt of goods, and some payments were not made timely.

- A. The city did not adopt a procurement policy until February 2007. Although the city administrator indicated it was the city's practice to bid purchases exceeding \$2,000, bid documentation could not be located for numerous expenditures and the evaluation process for selecting the successful vendor was often not documented. The city made the following purchases without evidence of bid or proposals:

|                             | Amount expended<br>between June 30, 2005<br>and February 2007 |
|-----------------------------|---|
| Trash collection services   | \$ 143,111  |
| Lamp posts                  | 42,168  |
| Lagoon catwalk construction | 26,405  |
| Worker's Comp Insurance     | 15,982  |
| Security cameras            | 6,000   |

In addition, there is no indication that the city procures professional service vendors using requests for qualification or proposals. The city did not request qualifications for engineering services utilized on several projects or accounting services, which totaled approximately \$98,000. There was no evidence of any solicitation of proposals for the selection of accounting services and, although the city board minutes showed some evidence of solicitation of proposals for engineering services for a lagoon catwalk, no documentation was maintained of the information received nor of the justification for selecting or rejecting the vendors.

Formal bidding and professional service procurement procedures 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. Competitive procurement 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 bid, or by advertised sealed bid and professional services can be solicited using requests for qualification and proposals for services. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids and statements of qualification received and reasons noted why a bid or vendor was selected.

- B. The city does not have written contracts for trash collection or some construction services indicating the services to be provided and at what amount. Between June 30, 2005, and February 28, 2007, the city paid \$143,111 to the trash collection vendor and \$101,208 to two different construction contractors for water and sewer system projects. The payments to the trash collection vendor are based on a percentage of the amount billed by the city to residents for trash collection services, but the city had no support for how that percentage was determined. The July 2005 minutes indicate that a contractor's bid was accepted for lagoon catwalk engineering services but there is no evidence of a contract.

Section 432.070, RSMo, requires contracts of political subdivisions be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

- C. Supporting documentation was not adequate for some expenditures, invoices did not contain an indication of approval for payment or receipt of goods or services, and invoices were not always paid timely. Several disbursements were not adequately supported by invoices, including the fraudulent disbursements made by the former City Clerk and travel reimbursements. The city does not require department directors to approve invoices for payment or to verify receipt of goods prior to payment.

To ensure the obligation was actually incurred and properly approved, all expenditures should be supported by properly approved invoices containing indication that goods or services have been received.

- D. The city failed to pay numerous invoices timely resulting in significant increases in current liabilities. Numerous invoices which were not paid timely included payroll liabilities payable to the IRS, the state, and the city's deferred compensation vendor. In addition, the former City Administrator indicated that the city identified nearly \$100,000 in unpaid bills in September 2006 after the former City Clerk resigned.

Procedures should be in place to ensure bills are paid timely to avoid late charges and interest. Payroll transactions should be closely monitored to ensure taxes are remitted on a timely basis. Procedures need to be changed to ensure federal payroll taxes are deposited timely.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure major purchases are bid and professional services are competitively procured, document the justification for selecting vendors or professional services, and maintain bid documentation on file.

- B. Enter into written agreements for all services.
- C. Ensure expenditures are supported by adequate invoices, all invoices are properly approved, and payment documentation contains indication that goods or services have been received.
- D. Implement procedures to ensure bills are paid timely.

**AUDITEE'S RESPONSE**

- A. *By January 1, 2008 the board will prepare a revised procurement policy that will address this recommendation.*
- B,C  
&D. *We agree and will implement these recommendations.*

**5. Budgets, Financial Monitoring and Reporting**

Significant weaknesses were identified in the city's budgeting and financial monitoring and reporting. Fiscal year 2006 and 2007 budgets did not include all information required by state law, actual expenditures exceeded the budget, and budget to actual reports and other financial data were not submitted to the Board of Aldermen for review in fiscal year 2006. In addition, financial reports were not published or submitted on a timely basis in accordance with state law.

- A. The budgets prepared for the fiscal years ended June 30, 2007 and 2006 did not present financial information by fund, and did not include a budget message, a general budget summary, information regarding the city's debt, or actual revenues and expenditures for the two preceding budget years. The 2007 and 2006 budgets only included actual amounts for the partially completed previous year through March 2006 and April 2005, respectively. Additionally, the budgets did not present cash or fund balances and did not provide a reconciliation of the prior year's receipts and disbursements to the city's cash balances in the accounting or banking records. Section 67.010, RSMo, requires the preparation of 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 costs and revenue expectations for each area of city operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations by fund, and include the beginning available resources and a reasonable estimate of the ending available resources. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding years. Additionally, the

beginning cash balances of the funds should agree to the accounting records and summary totals should accurately reflect the detail amounts.

- B. The city's combined general and utility fund budget is not properly used to monitor revenues and expenditures throughout the year. For the year ended June 30, 2006, the city's actual expenditures exceeded the original and/or amended budgeted amounts. While the board approved only one \$900 budget amendment for revenues and expenses related to a new source of income in February 2006, significant other items in the budget which also needed to be amended were not. The board did not receive budget to actual financial reports during fiscal year 2006, did not budget all expenditure activity, and did not properly monitor the city's compliance with budgetary restrictions, resulting in significant overspending.

| Fiscal Year Ended June 30, 2006 |              |           |
|---------------------------------|--------------|-----------|
| Amended                         | Actual       | (Over)    |
| Budget                          | Expenditures | Budget    |
| \$ 1,514,129                    | 2,476,089    | (961,960) |

The majority of the overspending was caused by unbudgeted expenditures totaling approximately \$884,000. The Board of Alderman had been receiving monthly budget to actual financial reports for the year ended June 30, 2007, beginning in September 2006, but these reports are no longer kept up to date and presented to the board. The city was unable to provide us budget to actual financial reports for the year ended June 30, 2007; however, a review of the February 2007 report indicated the city had exceeded approved budgeted expenditures by \$126,000. Unbudgeted expenditures totaling \$371,000 caused the majority of this overage; however, if unbudgeted expenditures are removed from the analysis, the February 2007 report indicated the city had spent 83% of the budget during the first 67% of the year. In addition, the report did not include information on the available cash balances.

The budget process provides a means to allocate financial resources in advance and to monitor revenues and expenditures throughout the year. Failure to adhere to the expenditure limits imposed by the budgets weakens the effectiveness of the process. Section 67.040, RSMo, requires political subdivisions to keep expenditures within amounts budgeted and allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. In addition, Section 67.080, RSMo, provides that no expenditure of public monies shall be made unless it is authorized in the budget. The city should formally amend the budget before the related expenditures are incurred.

- C. The City has not published semi-annual financial statements as required by state law. While six month statements were published for 2005, those statements did not include receipt and disbursements information as required by law, but rather

presented assets and liabilities. Statements were not published for 2006. In addition, the statements do not appear to be supported by the financial records of the city as shown below.

| Balance Sheet information as of |  |  |
|---------------------------------|--|--|
| June 30, 2005                   |  |  |
|                                 | City published<br>financial<br>statement | CPA compiled<br>financial<br>statement |
| Assets                          | 4,817,891                                | 6,988,595                              |
| Liabilities                     | 3,605,197                                | 5,420,448                              |
| Equity                          | 1,212,694                                | 1,568,147                              |

The city had no documentation to support the numbers presented in their financial statement and it is unclear if the amounts presented by the city include all activity.

Section 79.160, RSMo, requires the Board of Aldermen to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six month period. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statement is published.

- D. Annual financial reports were not filed with the State Auditor’s office as required by state law. Audits for the fiscal years ended June 30, 2003 and 2002 were submitted in February 2004 and October 2003, respectively, but no audits or financial reports have been filed for subsequent years, although the city obtained financial statement compilations. Section 105.145, RSMo, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor’s office.

**WE RECOMMEND** the Board of Aldermen:

- A. Prepare budgets which contain all information as required by state law. Ensure information is presented by fund and includes all planned financial transactions. Additionally, the budget should present available cash balances, reconciliations of cash balances to the city's financial records, and reconciliations to the prior year's beginning cash balances and financial activities.
- B. Use the city's budgets to monitor revenues, expenditures, and cash balances throughout the year and ensure actual expenditures do not exceed budgeted amounts. In addition, budget amendments should be made prior to incurring the actual expenditures.
- C. Publish semi-annual financial statements as required by state law.

- D. Submit annual reports of financial transactions to the State Auditor's office as required by state law.

**AUDITEE'S RESPONSE**

- A. *We contracted with a private CPA to assist in the preparation of the 2008 budget and have addressed the deficiencies noted in the recommendation.*
- B. *The board and the finance committee will, at a minimum, review budget reports on a monthly basis.*

*C&D. We agree and will implement these recommendations.*

|                          |
|--------------------------|
| <b>6. Utility System</b> |
|--------------------------|

In addition to the improvements needed in accounting controls and procedures and bond administration, as discussed in MAR finding number 3 and 7, the city needs to improve documentation of utility service rate calculations, assess the overall financial viability of the Utility Fund, and comply with city ordinances which require service shut offs when customer accounts are delinquent.

The city utility system includes water, sewer, and trash services. During the year ended June 30, 2006, utility operating revenues exceeded \$735,000.

- A. The city has not performed and documented formal reviews of the adequacy of the water, sewer, and trash user rates. The former City Administrator indicated he calculated the rates informally but had not retained information on the calculations. The Board of Alderman raised water and sewer rates between June 2005 and June 2006 by 30 percent. However, there is no documentation to support the board's decisions or justification for these rate increases.

The city's financial statements reported Utility Fund operating income or (loss) during the years ended June 30, 2006, 2005, and 2004, of about \$7,300, (\$107,700), and (\$104,000), respectively. However, non-operating revenues and expenses consisting primarily of interest income and debt service payments resulted in total net losses during those years of about (\$36,100), (\$150,200), and (\$187,000), respectively. These utility losses have contributed significantly to the poor financial condition of the city because the General Fund has transferred approximately \$195,000 to the Utility Fund during the last three years. In addition, the Utility Fund financial statements reported no unrestricted cash balances for the three years ended June 30, 2006, 2005, and 2004 indicating that the Utility Fund has been operating from General Fund cash balances during the three years.

Water, sewer, and trash collection fees are user charges which should cover the cost of providing the related services including related debt retirement, and depreciation and replacement costs. The city should perform a detailed review of its water, sewer, and trash collection costs, including depreciation and debt service costs, and set rates to cover the total costs of operation. In addition, the city should document their justification for setting the rates for utilities and should assess the overall financial viability of the Utility Fund.

- B. Water and sewer service is not always shut-off in accordance with city ordinance when customer accounts are delinquent. Utility billings are due on the fifteenth day of each month and delinquent as of the twenty-fifth day. The city sends notices to delinquent customers each month indicating water will be shut-off if the bill is not paid by the first of the month following the month in which the bill was rendered. Test work revealed numerous instances where utilities were not disconnected as provided by the city policy even though customers had not paid their delinquent balances.

To reduce delinquencies, ensure delinquent accounts are properly handled, and ensure equitable treatment of all customers, the city should be more consistent in their shut-off procedures for customers whose water and sewer bills are delinquent.

**WE RECOMMEND** the Board of Aldermen:

- A. Periodically perform and retain documentation of reviews of water, sewer, and trash collection rates to ensure revenues are sufficient to cover costs of providing the services and to support the board's justification for changes made to utility rates. In addition, the board should assess the overall financial viability of the Utility Fund when reviewing rates and make adjustments to rates when necessary to improve the financial condition of the fund.
- B. Ensure more consistency in shut-off procedures for compliance with city ordinance.

**AUDITEE'S RESPONSE**

- A. *The board will perform a detailed review of the water, sewer, and trash rates by December 31, 2007 and take appropriate action.*
- B. *We have implemented this recommendation.*

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| <b>7. Bond and Grant Administration</b> |
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The city has not complied with bond covenant restrictions and has not properly expended some bond and grant proceeds.

A. A review of proceeds from four bonds and one grant acquired by the city between 2002 and 2007 indicated that the city did not always expend the funds for restricted purposes.

- The city received bond proceeds from a general obligation bond series issued for street improvements and maintenance. The proceeds totaling nearly \$783,000 were received by the city at the date of bond issuance and were deposited to a bank account designated for general obligation bond construction activities. Due to the poor controls and procedures over expenditures and financial reporting, the former City Clerk was able to divert approximately \$360,000 to the city's general checking account. The former City Administrator indicated that the diverted funds were primarily used to pay general operating expenses of the city and utility systems. Neither the former City Administrator or members of the Board of Alderman reviewed bank statements or monthly reports of activity related to the bond and grant funds, which allowed the transfer of these funds to go undetected. These diverted funds also provided cash balances sufficient to support the misappropriations that are discussed in MAR finding number 2.
- The city has not adopted procedures to ensure monies drawn down from bond proceeds held by a trustee bank are paid to vendors. Cash draw downs of \$4,000 and \$11,500 were made by the city from the bond trustee of the 2005 and 2002 series special revenue bond construction accounts. The draw down requests were supported by copies of vendor invoices for project construction services which the city needed to issue payment on; however, the related cash disbursements did not appear to be made to the vendors by the city.

Revenues restricted for a specific purpose should not be used for general operating expenses of the city or other non-allowed purposes. The city's General Fund owes the 2004 bond proceeds construction account approximately \$360,000 and the city should ensure that the cash draw downs from the 2005 and 2002 special revenue bonds were used to pay allowable costs or should return the unspent funds to the trustee.

B. Covenants in some of the city's bond transcripts require the city to set revenue rates to provide funding sufficient to meet operating and debt retirement costs and to obtain and provide annual financial audits to the trustee. The city has not complied with various bond covenants.

1. Rate covenants on sewer system revenue bonds issued in 2002 and 2005 require the city to establish user charges to produce income sufficient to operate and maintain the utility systems, provide net revenues of at least 110 percent of the current year's debt service requirement, and provide for reasonable and adequate reserves for bond repayments. However, the city

has failed to establish rates sufficient to meet the rate covenant requirements. A formal review of sewer rates has not been performed during the past several years. For the year ended June 30, 2006, the city's independent auditor reported that the net revenues available for debt service was under funded by approximately \$49,000, and there were no reserve or replacement accounts maintained. As a result, rates were not set at an amount sufficient to generate required revenues and the water and sewer fund has been operating at a loss for the past several years, as discussed in MAR finding number 6.

The failure of the city to comply with the revenue bond covenants could allow the bondholders to take legal action to force compliance or immediate payment of all outstanding bonds. The city should perform periodic detailed reviews of the costs of providing sewer services and set rates appropriately.

2. The city has not obtained annual audits of its water and sewer system as required. The bond covenant and Section 250.150, RSMo, requires the city to obtain annual audits of the water and sewer system. In addition to being required by state law and the city's bond covenants, annual audits of city funds would help ensure city financial transactions have been properly recorded.

- C. Documentation of special projects funded by bond or grant proceeds is not adequate. Since July 2002, the city has issued bonds totaling \$1,410,000 for water and sewer system improvement projects; \$800,000 for street projects; \$700,000 for storm water system projects; and \$83,000 for a city beautification project. In addition, in 2005, the city was awarded a grant totaling \$269,300 for the city beautification project.

The city does not maintain a central filing system for each project. As a result there was inadequate documentation of pre-project planning, cost estimates, procurement of consultants and financing, bidding and contractor selection, project inspections and progress monitoring, or cash draws and related project invoices. In addition, financial reports are not prepared detailing project activities including budgets, receipts, disbursements, cash balances, and available project budget. Finally, the city's budget does not provide information sufficient to monitor project activities, budget balances, or cash balances of the projects.

Organized accounting and project records are necessary to provide documentation of the sources and uses of projects funded by special revenue sources, to document the city's decisions and activities related to project planning and administration, and to demonstrate compliance with legal or contractual requirements.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure restricted revenues are expended only for their intended purpose and repay the restricted revenue cash accounts held by the city or the city's bond trustee for monies not used for allowable purposes.
- B.1. Monitor compliance with the rate covenant on an annual basis and take steps to adjust water and sewer system user charges if noncompliance is detected.
- 2. Obtain annual audits of the Water, Sewer, and Trash Fund, as required by state law and bond covenants.
- C. Maintain adequate centralized records of projects funded by special revenue sources.

**AUDITEE'S RESPONSE**

- A. *We have established a fund accounting system to ensure restricted assets are properly accounted for. The contractors have now been paid in full.*
- B.1. *The board will perform a detailed review of the water, sewer, and trash rates by December 31, 2007 and will take appropriate action.*
- B.2. *We have procured a CPA to perform a compilation of the year ended June 30, 2007. The city will procure annual audits for subsequent years.*
- C. *We will implement a project file for each active special revenue project by June 30, 2008.*

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| <b>8. Minutes, Board Meetings, Ordinances, and Public Records</b> |
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Agendas and minutes for board meetings are sometimes not properly documented and maintained or kept in a central location and minutes are frequently not properly approved. In addition, board meeting minutes do not always contain sufficient detail of meeting activities and closed meetings are frequently not conducted or documented in accordance with state law. Also, the city needs to improve its policies and procedures over record keeping and documenting information requested by the public.

- A. Numerous problems were noted with board meeting minutes. Board meeting minutes are prepared by the city clerk and reviewed for approval at the next board meeting.
  - Meeting minutes frequently indicated that prior meeting minutes were approved by the board; however, the dates of the approved minutes were not documented.

- Approved minutes were frequently not signed or dated by the mayor and city clerk.
- Minutes for two meetings (including one closed meeting) could not be located by the city and formal minutes had not been typed and entered into the city's official records for two meetings (including one closed meeting).
- Minutes did not always include adequate detail as to what was being discussed or voted on. For example, meeting minutes for several closed sessions indicated only that "the audit and litigation was discussed" and minutes did not always include documentation of bids received or the reason a bid was selected. Additionally, some actions were taken by the board without recording a vote and votes were not recorded for some actions taken in closed session.
- Bill and ordinance numbers were not always accurately recorded in the minutes and some ordinance and bill numbers were not used at all causing a break in the sequence of numbers used.
- Closed minutes did not document how some items approved or discussed in closed session complied with state law. For example, the board approved a contract for water meters. The board discussed coordination of background checks between the police department and schools, employee bonding, procurement of a firm for audit services, levy increases, loans or tax anticipation notes, and options for reducing expenditures. Discussing such topics in closed session does not allow the public an opportunity to provide input on these matters.
- Roll call votes taken during open meetings often did not indicate the purpose of closing the meeting.
- Actions taken during closed meetings were not subsequently disclosed during open session.

The Sunshine Law, Chapter 610, RSMo, requires governmental bodies to prepare and maintain minutes of open and closed meetings and specifies details that must be recorded; states the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session; 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; requires sufficient documentation of discussions held in closed meetings to demonstrate compliance with statutory provisions, and support important decisions made; and requires certain votes taken in closed session to be disclosed in open session.

Minutes are required to include, but not limited to, the date, time, place, members present, members absent, and a record of votes taken. In addition, the minutes should provide details regarding discussions that take place during meetings. Complete and accurate minutes are necessary to retain a record of the business conducted and actions taken by the commission. In addition, minutes should be signed by the board to show that the minutes have been reviewed and accurately reflect the discussions held and actions taken in the previous meeting.

- B. The city ordinances do not appear complete and up-to-date. Additionally, the city has not adopted ordinances required by state law and/or needed to govern the city.
- Many of the city ordinances appear old and outdated.
  - It appears the ordinances were last codified in 2002 and the codification has not been updated regularly since then.
  - Copies of the proposed ordinances are not posted for public inspection. The board reads proposed ordinances by title only during the board meetings. Although city officials indicated that proposed ordinances are listed on the tentative agendas that are posted for public inspection, interested parties must request copies of the proposed ordinances from the city clerk's office.

Since ordinances represent legislation passed by the board to govern the city and its residents, it is important that they be maintained in a complete, well-organized, and up-to-date manner. An index of all ordinances passed and repealed by the city could help keep track of additions and changes made to the city ordinances. A complete set of the original signed ordinances should be maintained at the city hall. Section 79.130, RSMo, states copies of proposed ordinances shall be made available for public inspection prior to the time the bill is under consideration by the board of aldermen. To achieve full public disclosure, proposed ordinances should be posted for public inspection along with tentative agendas.

- C. The city does not have adequate controls to ensure information requests from the public are handled in compliance with the Sunshine Law. The city has not adopted a policy establishing a records custodian and setting forth policies for documenting requests, responding to requests, or fees to be charged for researching and providing copies of requested public documents.

Section 610.023, RSMo, provides each request for access to public records shall be acted upon as soon as possible, but in no event later than the end of the third business day following the date the request was received by the custodian of records of a public governmental body. To ensure the city is complying with this statute, the city should document adequate information in a request log to determine if requests are completed timely and that all requests are adequately filled. In addition, the board should pass a resolution setting the custodian's requirements, documentation request procedures, and setting the price for obtaining documentation, including a schedule for document search.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure complete and accurate minutes of the board's meetings are maintained including, but not limited to, a record of any votes taken and other information required by state law. In addition, minutes should be signed to attest to their accuracy and handling of closed meetings should be done in accordance with state law.

- B. Ensure a complete and up-to-date set of codified ordinances is maintained and post proposed ordinances for public inspection.
- C. Establish a records policy to ensure compliance with the Sunshine law. This policy should include appointing a records custodian, maintaining a central record of documentation requests, procedures for handling requests, and a fee schedule for documentation retrieval, including research costs.

**AUDITEE'S RESPONSE**

- A. *We will take action to ensure the minutes are complete, accurate, and meetings are conducted in accordance with state law.*
- B. *The fiscal year ending June 30, 2008 budget includes funds to update the ordinance codification. We will ensure that proposed ordinances are available for public inspection in compliance with state law.*
- C. *We will develop a public records access policy by October 1, 2007.*

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| <b>9. Capital Assets and Vehicle Usage</b> |
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The city has not established formal policies and procedures for capital assets, including procedures for an annual physical inventory. In addition, controls over the use of city owned vehicles are not adequate.

- A. The city does not maintain property records to account for the capital assets owned by the city and does not conduct physical inventories. The city maintained an insurance policy listing of insured city assets; however, it did not indicate the purchase date or value of the assets. Adequate capital asset records are necessary to provide better internal controls over city 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.

To develop appropriate records and procedures for capital assets, the city needs to undertake a comprehensive review of all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The city should properly record all capital asset transactions and ensure the accuracy of the recorded capital assets. Periodically, the city should take physical counts of its assets and compare to the detailed records.

- B. The city does not maintain mileage/usage or maintenance logs for vehicles and equipment owned by the city and used by the street or water department. As a

result, fuel usage by vehicle for the street or water department cannot be reviewed for reasonableness and cannot be reconciled to billings received and paid by the City Clerk's office. The police department maintains fuel usage and maintenance logs and reviews fuel usage by each vehicle for reasonableness; however, the fuel usage is not compared to billings received and paid by the City Clerk's office. The city's insurance records indicate the city owned nineteen vehicles and pieces of heavy equipment and the city's financial statements indicate the city expended approximately \$27,000 for fuel during the year ended June 30, 2006.

Mileage/usage logs are necessary to document appropriate use of the vehicles and equipment and to support fuel charges. The mileage/usage and maintenance logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings (or hours of use for equipment), and the operation and maintenance costs. These logs should be reviewed by the Board of Aldermen to ensure vehicles and equipment are used only for city business, are being properly utilized, and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to fuel purchases and other maintenance costs.

**WE RECOMMEND** the Board of Aldermen:

- A. Maintain property records for capital assets that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.
- B. Maintain complete and accurate mileage/usage and maintenance logs for all vehicles and heavy equipment. The logs should be reviewed by a supervisor periodically for completeness and reasonableness. Information on the logs should be reconciled to fuel purchases and other maintenance costs.

**AUDITEE'S RESPONSE**

- A. *We are in the process of updating a capital asset listing and will ensure physical inventories are conducted during the fiscal year ending June 30, 2009.*
- B. *We will implement mileage logs by October 1, 2007 for all vehicles and require department supervisors to perform reviews and provide reports of fuel usage on a monthly basis.*

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| <b>10. Golf Course Contract</b> |
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The city did not properly monitor an agreement with a contractor for the construction, operation, and maintenance of a golf course. In 1992, the city received a donation of property and entered into a contract with a developer to build and maintain a golf course

on the property. Apparently, title was transferred to the contractor, who was responsible, at his own expense, for constructing an 18-hole course on the property. The agreement provided purchase option dates that the city could exercise to buy back the golf course at specified purchase prices, including a final option of \$1 in January 2023. The city has not exercised any of the purchase options as of April 2007. The agreement also provided that, after 1993, the contractor would pay the city ten percent of the net profits realized from the operations of the golf course and allowed the city full access to the financial records and tax returns of the golf course.

According to the former city administrator, the golf course is currently owned by a local business man who purchased the property from the developer in 2000. The contract with the developer included a clause that the terms would be enforceable against any future purchaser of the property.

Numerous documents were filed with the Clay County Recorder of Deeds' Office between 1992 and 2006 to document the original and subsequent property transfers, various loans and loan releases, and notices of agreements between the parties which placed restrictions on the use of the property. It appears from a review of these documents that some deeds were not filed timely by the city based on the time frames stated by the former city administrator. The city was unable to provide documentation to substantiate that the terms of the original contract with the developer were still valid against the new owner of the golf course and it is unclear from a review of documents filed with the Clay County Recorder of Deeds Office whether the appropriate documents were filed to enforce the original contract against the current owner. Our review of the minutes for the last two years disclosed no discussions by the board regarding the golf course and the former city administrator indicated the city has not sought any legal opinions or advice from their city attorney regarding this issue. In addition, the city has received no financial records or tax returns from either the developer or the current owner to determine whether payment should have been received by the city based on the terms of the contract.

Failure to monitor and enforce the original terms of the contract with the developer or subsequent purchaser of the property could have resulted in a substantial loss of revenue to the city. Because it is unclear whether the city properly filed the deed documents related to the land and contract terms, the city's ability to enforce the terms of the original contract are in question. This entire situation should be discussed with the city attorney to determine what action the city should take to protect their rights to the golf course.

**WE RECOMMEND** the Board of Aldermen request an opinion from their attorney regarding their rights related to the golf course and determine whether any payments are due from the parties involved.

#### **AUDITEE'S RESPONSE**

*We will consult with the city attorney and ensure appropriate actions are taken.*

**11.**

**Street Maintenance Plan**

A formal maintenance plan for city streets has not been prepared annually. The city spent approximately \$184,000 on identifiable street related expenditures during the year ended June 30, 2006. 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 develop a street maintenance plan in conjunction with the long term financial plan and the budget for FYE June 30, 2009.*

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

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

The city of Lawson is located in Clay and Ray Counties. The city was incorporated in 1871 and is currently a fourth class city. The population of the city in 2000 was 2,336.

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 June 30, 2006, are identified below. The Mayor is paid \$340 and Aldermen are paid \$240 annually. The compensation of these officials is established by ordinance.

| <u>Mayor and Board of Aldermen</u> | <u>Dates of Service During the Year<br/>Ended June 30, 2006</u> |    |   |
|------------------------------------|---|----|---|
| George Green, Mayor (1)            | July 2005 – June 2006   |    |   |
| Ed Duncan, Alderman (2)            | July 2005 – June 2006   |    |   |
| Bob McCullah, Alderman (3)         | July 2005 – June 2006   |    |   |
| Roy Sparks, Alderman (4)           | September 2005 – June 2006                                      |    |   |
| Jack Crowley, Alderman             | July 2005 – August 2005   |    |   |
| Josh Thomas, Alderman (5)          | July 2005 – June 2006   |    |   |
|                                    |   |    |   |
| <u>Other Officials</u>             | <u>Dates of Service During the Year<br/>Ended June 30, 2006</u> |    | <u>Compensation<br/>Paid for the<br/>Year Ended<br/>June 30, 2006</u> |
| John Tracy, City Administrator (6) | July 2005 – June 2006   | \$ | 66,141  |
| Rhonda Minnick, City Clerk (7)     | July 2005 – June 2006   |    | 41,152  |
| Norm Hemmerling, Police Chief      | July 2005 – June 2006   |    | 46,619  |
| Brian Hall, City Attorney          | July 2005 – June 2006   |    | 1,528   |
| Melissa Howard, Municipal Judge    | April 2006 – June 2006  |    | 1,000   |
| Thomas Fincham, Municipal Judge    | July 2005 – March 2006  |    | 4,500   |

- (1) George Green resigned in May 2007 and Josh Thomas was appointed to the position of Mayor.
- (2) Marcia Petty was elected Alderwoman in April 2007.
- (3) Steven Pickett was elected Alderman in April 2007.
- (4) Jack Crowley resigned in August 2005 and Roy Sparks was appointed to the position of Alderman.
- (5) Josh Thomas was appointed to the position of Mayor in May 2007 and Martin Hummel was appointed to the position of Alderman.

- (6) John Tracy resigned May 15, 2007. This position remains vacant.  
 (7) Rhonda Minnick resigned August 31, 2006.

In addition to the officials identified above, the city employed fourteen full-time employees and two part-time employees on June 30, 2006.

Assessed valuations and tax rates for 2006 and 2005 were as follows:

| ASSESSED VALUATIONS  | 2006                 | 2005              |
|----------------------|----------------------|-------------------|
| Clay County          |                      |                   |
| Real estate          | \$ 2,886,030         | 2,751,100         |
| Personal property    | 577,856              | 467,036           |
| Railroad and utility | 325,240              | 259,702           |
| Total Clay County    | <u>\$ 3,789,126</u>  | <u>3,477,838</u>  |
| Ray County           |                      |                   |
| Real estate          | \$ 14,860,350        | 14,394,680        |
| Personal property    | 4,088,419            | 3,902,197         |
| Railroad and utility | 793,202              | 785,118           |
| Total                | <u>19,741,971</u>    | <u>19,081,995</u> |
| City Total           | <u>\$ 23,531,097</u> | <u>22,559,833</u> |

TAX RATES PER \$100 ASSESSED VALUATION

|              | 2006 Rate | 2005 Rate |
|--------------|-----------|-----------|
| General Fund | \$ 0.6300 | 0.4400    |
| Debt service | 1.1700    | 0.9700    |

TAX RATES PER \$1 OF RETAIL SALES

|                      | 2006 Rate | 2005 Rate |
|----------------------|-----------|-----------|
| General              | \$ 0.0100 | 0.0100    |
| Capital improvement  | 0.0050    | 0.0050    |
| Parks and Recreation | 0.0050    | n/a       |