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Missouri State Auditor

Village of Collins



June 2009
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Office of the
Missouri State Auditor
Susan Montee, JD, CPA

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The following findings were included in our audit report of the Village of Collins.

The cash balance of the village's General Fund has been declining. Several factors have contributed to this decline. The village spent approximately \$280,000 to construct a storm shelter paying approximately \$130,000 from the General Fund. This cost was significantly more than estimated, and the village did not prepare a budget to properly monitor these costs. Additionally, expenses, such as wages and fringe benefits, are mostly paid from the General Fund even though employee duties relate to water, sewer, and street services. Further, the village is authorized to pay the cost of street lighting from motor vehicle related fees from the state, but has been paying these costs from the General Fund since 2005. The financial condition of the village's General Fund should be closely monitored by ensuring budgets are prepared, spending is monitored, and expenses are allocated to the proper fund.

The village paid the Maintenance Supervisor \$19,500 during the 2 years ended December 31, 2008, in addition to his hourly wage, for extra duties that are not adequately documented. This compensation is based upon agreements that expired as far back as 2002, and these services appear to duplicate the job description and duties listed in the employee policy book. Time sheets are not signed by employees to certify the accuracy of work performed and are not reviewed and approved by the Board of Trustees. Leave benefits are not always calculated in compliance with village policy.

The village needs to improve accountability over its water and sewer system. The village disburses approximately all water and sewer receipts received and does not maintain reserve funds for improvements or major repairs. Additionally, the village does not have documentation to support water and sewer rate increases, and does not compare the total gallons of water pumped to the total gallons of water billed to customers to ensure all water usage is properly billed. The village is holding approximately \$2,400 in meter deposits that should be refunded to customers, the meter deposit list is not compared to the balance in the Meter Deposit Fund monthly, and annual audits of the water and sewer system are not obtained as required by state law. Further, the village has not adequately monitored a project to update the lagoon, and total costs for the project have not been tracked. The village does not have adequate maintenance records for its water and sewer system, and the Board of Trustees has not addressed recommendations from a 2007 inspection of the water storage tank.

Improvements over disbursements, such as maintaining written contracts, documenting approval of disbursements and evaluating cellular phone costs is needed. Additionally, fuel usage and mileage logs are not maintained for the village truck, and commuting mileage is not documented and included on the Maintenance Supervisor's W-2 Form.

YELLOW SHEET

The village's budget document lacked some information required by state law, did not properly reflect transfers between funds or interest earned on investments, and did not include adequate documentation of the board's approval. Additionally, the Board of Trustees did not periodically compare actual receipts and disbursements with budgeted amounts, and as a result, the village spent more than budgeted from several funds. Further, the village has spent very little from the Capital Improvement Sales Tax Fund for street improvement, and does not have a plan documented on how to utilize the balance of more than \$59,000 that has accumulated as of December 31, 2008.

Accounting duties are not adequately segregated and there is no evidence the Board of Trustees provided adequate supervision or review of the work performed by the Village Clerk. Procedures used to record monies received need improvement. Receipt slips are not always prepared, the method of payment received is not always documented, and checks and money orders received are not restrictively endorsed upon receipt. Additionally, monthly bank reconciliations performed by the Village Clerk are not documented, and the village does not have bond coverage for the two board members authorized to sign checks.

The village does not maintain current, complete, and detailed records of capital assets.

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VILLAGE OF COLLINS, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS	4-20
<u>Number</u>	<u>Description</u>
1.	Financial Condition.....5
2.	Payroll Issues6
3.	Water and Sewer System8
4.	Village Disbursements12
5.	Budgets and Financial Reporting.....14
6.	Accounting Controls17
7.	Capital Assets19
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	21-25

STATE AUDITOR'S REPORT



SUSAN MONTEE, JD, CPA
Missouri State Auditor

To the Honorable Chairman
and
Members of the Board of Trustees
Village of Collins, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Village of Collins. The scope of our audit included, but was not necessarily limited to, the 2 years ended December 31, 2008. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the village has adequate internal controls over significant management and financial functions.
3. Determine if the village has complied with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the village, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of 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 instances of noncompliance significant to those 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. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given

the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

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

The accompanying Management Advisory Report presents our findings arising from our audit of the Village of Collins.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Alice M. Fast, CPA, CIA, CGFM
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

VILLAGE OF COLLINS
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Financial Condition

The cash balance of the village's General Fund has been declining. During the 2 years ended December 31, 2008, General Fund disbursements exceeded receipts by approximately \$146,000 causing the cash balance to drop to approximately \$11,000 as of December 31, 2008. Several factors appear to have caused the declining balance.

- The village completed construction of a community storm shelter in 2008 spending approximately \$130,000 from the General Fund. The shelter, costing approximately \$280,000, was partially funded by a State Emergency Management Agency grant of \$150,000. Initial grant application estimates indicate the village only anticipated spending approximately \$10,000 plus an in-kind contribution of the land with an estimated value of \$40,000. The total cost of the shelter exceeded initial estimates, and the actual appraised value of the land was significantly less than estimated, resulting in a significant increase in the amount of general funds required to complete the shelter. Additionally, the village did not prepare a budget for the Storm Shelter Fund to properly monitor these costs. (See MAR finding number 5.)
- Expenses, such as wages and fringe benefits, are not allocated to the appropriate funds. Most of these costs are paid from the General Fund even though employee duties relate to water, sewer, and street services. (See MAR finding number 2.)
- The cost of providing street lighting has been paid from the General Fund since 2005; however, motor vehicle related fees from the state, authorized to pay these costs, have been deposited into the Capital Improvement Sales Tax (CIST) Fund. (See MAR finding number 5.)

WE RECOMMEND the Board of Trustees closely monitor the financial condition of the General Fund by preparing budgets, monitoring spending, and allocating expenses to the proper funds.

AUDITEE'S RESPONSE

The Board of Trustees provided the following response:

We are aware of the decrease in the General Fund balance and will monitor the balance in the future. Sales tax revenues in the General Fund have also decreased, and with the exception of the storm shelter expenses, there has only been a \$16,000 decrease in the General Fund balance in the last 2 years. The first and second points will be implemented, and we intend to reimburse the General Fund for past electricity paid for out of the General Fund that should have come

from the motor vehicle related funds that were deposited in the Capital Improvement Fund since 2005.

2.

Payroll Issues

The Maintenance Supervisor was paid \$19,550 during the 2 years ended December 31, 2008, in addition to his hourly wage, for extra duties that are not adequately documented. Employee wages are not properly allocated to village funds, and time sheets are not signed by village employees to certify their accuracy or by the village board members to indicate their review and approval. Further, employee leave benefit calculations do not always comply with existing village policy.

- A. The village pays \$450 monthly for meter reading and mowing services and \$400 monthly for water and waste water testing services to the Maintenance Supervisor. These amounts are paid in addition to the Maintenance Supervisor's regular wage of \$12 per hour. There is no documentation to indicate these services were provided outside of the Maintenance Supervisor's normal working hours and the amounts are based upon agreements between the village and Maintenance Supervisor that expired as far back as 2002. Additionally, according to village personnel, a part-time maintenance employee also performs meter reading and mowing services for the village and is compensated based upon an hourly wage.

Further, these services appear to duplicate the job description and duties listed in the employee policy book approved by the Board of Trustees in June 2008. There is no documentation to indicate the Board of Trustees has recently reviewed the additional compensation or considered the additional duties when determining the Maintenance Supervisor's job description.

Although these additional compensation amounts are included in the Maintenance Supervisor's payroll check (with the appropriate payroll taxes withheld), time sheets prepared by the Maintenance Supervisor do not clearly identify duties performed that adequately segregate compensation amounts. The Board of Trustees should evaluate these additional compensation amounts and determine if these services are duties that should be performed and compensated as regular employment duties of maintenance personnel.

- B. The method of allocating wages paid to the Village Clerk and the Maintenance Supervisor to specific funds does not appear reasonable, and is not supported by documentation. Although the Village Clerk performs water and sewer billing and collection activities, all of her wages are paid from the General Fund. In addition, the Maintenance Supervisor's job duties include street, water, and sewer system activities, but all his wages are paid from the Water and Sewer Fund. Further, all health insurance costs and payroll taxes for village employees (the employee and employer share) are paid from the General Fund.

The funds of the village are established as separate accounting entities to account for specific activities. Wage expenses should be allocated to the various village funds based on actual time worked or estimated time worked based on historical data. Reflecting expenses in the proper fund is necessary to accurately determine the results of operations and/or specific activities; thus, enabling the village to establish the level of taxation and/or user fees necessary to meet operating costs.

- C. Time sheets are not signed by employees to certify the accuracy of work performed and are not reviewed and approved by the Board of Trustees. Village policy requires employees to maintain a daily journal of work performed. Daily work journals are submitted monthly as employee time sheets; however, some time sheets do not indicate duties performed. To ensure the propriety of salary disbursements, time sheets should be signed by employees, reviewed and approved by the Board of Trustees, and include adequate detail of work performed to comply with village policy.
- D. Leave benefits are not always calculated in compliance with village policy. Village policy allows for sick leave to be earned at the rate of 3 hours per month; however, employees are given credit for the entire annual benefit at the beginning of the year. As a result, leave benefits can be used before they are earned. In addition, policy restrictions placed on accumulated vacation and personal leave are not always followed. For example, one employee did not use two accumulated personal day benefits allowed by the village policy in 2007. These personal days were carried forward and recorded as sick benefits. Sick benefits are allowed to accumulate and carry forward up to 100 hours. The policy does not allow unused personal days to be carried forward to the succeeding year.

Leave benefits should be calculated in accordance with village policy to ensure all employees receive the proper amount of leave.

WE RECOMMEND the Board of Trustees:

- A. Review the duties and compensation of the Maintenance Supervisor to ensure duties performed are compensated appropriately and adequately documented.
- B. Ensure employee wages and benefits are properly allocated to village funds and the allocation is supported by adequate documentation.
- C. Ensure time sheets are signed by the employee and properly reviewed and approved by the board.
- D. Ensure leave benefits are properly calculated in accordance with village policy.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *We will review the duties and compensation of the Maintenance Supervisor and address these issues.*
- B. *The village previously received a significant amount of sales tax revenue and previous boards wanted to keep water and sewer rates low by using this sales tax money to supplement the cost of providing these services. We agree disbursements should be paid from the correct fund.*
- C. *We will begin reviewing time sheets monthly.*
- D. *We agree and have taken steps to implement this recommendation.*

3. Water and Sewer System

The village needs to improve accountability over its water and sewer system, including planning for adequate improvement and replacement reserves, documenting rate calculations, comparing water pumped to water billed, refunding some meter deposits, and obtaining annual audits. Additionally, the costs associated with a lagoon improvement project have not been adequately tracked, and the village has not kept adequate maintenance records on the water and sewer system.

The village operates a combined water and sewer system, providing service to approximately 125 customers. The village has established a Water and Sewer Fund to account for water and sewer system receipts and disbursements.

- A. The village Water Works Fund balance has declined during the 3 years ended December 31, 2008, and the village does not have any reserve funds for improvements or major repairs. Additionally, the village does not have documentation to support water and sewer rate increases.
 - The cash balance of the Water and Sewer Fund decreased approximately \$27,000 during the 2 years ended December 31, 2007, due to the costs associated with the village's lagoon upgrade project and equipment repairs. During 2008, the cash balance of the Water and Sewer Fund remained fairly constant ending the year with a balance of \$87,580. Excluding non-routine disbursements, the village disburses approximately all water and sewer receipts received annually; however, disbursements are not properly allocated among funds and additional water and sewer related expenses have been paid from the General Fund. (See MAR finding number 2.)

- The village charges fees based on volume usage to residents connected to the village's water and sewer system. In December 2005, the base water rate was increased from \$8 to \$9 per month and in March 2007, the base sewer rate was increased from \$9 to \$12. The village did not document how the rates were determined and does not review rates annually.

Allocating expenses to the appropriate fund enables utility rates to be set at an adequate level to fully sustain the utility system. Rates for utility services should be set to cover the costs of producing and delivering services (including administrative costs) and maintain reserves adequate to sustain the system. Section 67.042, RSMo, provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of such service. Preparation of an annual statement of costs would allow the village to determine the rate necessary to support current and future operations, as well as providing documentation to customers of the rationale behind the rates.

- B. The village does not perform monthly reconciliations of the total gallons of water pumped to the total gallons of water billed to customers. At our request, the Village Clerk prepared a reconciliation for the 3 months ended February 28, 2008. The reconciliation indicated water pumped was more than water billed by approximately 89,000 gallons, approximately 6 percent of the total water pumped.

To help detect any significant water loss on a timely basis and to help ensure all water usage is properly billed, the village should prepare and maintain comparisons of water pumped to water billed on a monthly basis and investigate significant differences.

- C. Concerns were identified with meter deposits held by the village. The village collects refundable water meter deposits of \$75 per meter, which are deposited into the Water Meter Deposit Fund. At December 31, 2008, the village had approximately \$8,500 in this fund.

- 1) The village is holding approximately \$2,400 in meter deposits that should be refunded to customers. The Village Clerk maintains a ledger of meter deposits collected and indicates when meter deposits are refunded or applied to final bills. Approximately \$2,400 of the \$8,500 held in the Meter Deposit Fund at December 31, 2008, are deposits held for customers no longer receiving village services. The village should attempt to refund deposits held for individuals that are no longer residents.
- 2) The Village Clerk does not reconcile the meter deposit list to the balance in the Meter Deposit Fund monthly.

To ensure records are in balance and all meter deposits are accounted for properly, the meter deposit list should be reconciled to the bank account balance

monthly. Any differences should be investigated and any unidentified amounts should be disposed of properly.

- D. The village has not obtained annual audits of the water and sewer system as required. Section 250.150, RSMo, requires annual audits of combined water and sewer systems. Annual audits of the Water and Sewer Fund (and other village funds) would better enable the citizens to ascertain the stewardship of the public officials who handle and are responsible for the financial resources of the village and determine the propriety and accuracy of its financial transactions. Additionally, the village must maintain adequate financial records of the water and sewer system to provide assurance rates are appropriately established.
- E. The village has not adequately monitored and managed a project to update the lagoon. The village received and rejected a bid of \$265,000 in 2005 to complete wastewater lagoon improvements. Village officials decided to perform the project using village employees to save money. A 12-month construction permit was issued by the Missouri Department of Natural Resources (DNR) for the project in May 2005, and a 1-year extension was granted at the village's request in May 2006. According to village personnel, several components of the project remain unfinished and the village has been constructing the project under an expired permit since May 2007.

Additionally, the total costs incurred by the village for this project have not been properly tracked. While the Village Clerk has tracked supplies and outside contracted labor costs totaling approximately \$67,000, employee labor costs are unknown.

To help monitor the progress of the lagoon project, the village needs to develop timelines and completion dates detailing project milestones for finishing the necessary components of the project. Total costs for the project should be adequately tracked including village personnel labor costs. Further, the village should work with the DNR to ensure the project is completed under a valid construction permit.

- F. The village does not have adequate maintenance records for its water and sewer system, and the Board of Trustees has not addressed recommendations from a 2007 inspection of the water storage tank.

The village purchased approximately 35 new meters during 2007 and 2008 to replace old meters throughout the village. Records were not maintained to document which meters were replaced and how these replacements were determined. Without adequate maintenance records, there is no documentation why some meters were replaced and other meters were not replaced.

Adequate maintenance records are also not maintained to document routine system maintenance or the date and condition of water and sewer equipment.

Further, several recommendations were made in a written report to the village following a 2007 inspection to determine the condition and safety of the water storage tank. According to meeting minutes, the Board of Trustees took the recommendations under advisement but no formal plan to remedy the issues identified in the inspection was documented.

A formal maintenance plan and adequate maintenance records for the water and sewer system would serve as a useful management tool. Maintenance records provide a means to continually and effectively monitor and evaluate the progress made in the repair and maintenance of the water and sewer system throughout the year and adequately plan for future water and sewer system needs.

WE RECOMMEND the Board of Trustees:

- A. Review water and sewer rates annually to ensure fees are sufficient to cover all costs of providing service, including repairs and maintenance, and document the costs of operations and how rate increases are calculated.
- B. Ensure a monthly reconciliation of water pumped to water billed is prepared and any differences are investigated.
- C. Attempt to refund meter deposits held for individuals no longer residing within the village and ensure the balance of the meter deposit list is reconciled to the balance in the bank account monthly. The Board of Trustees should dispose of any unidentified amounts in accordance with state law.
- D. Obtain annual audits of the water and sewer system as required by state law.
- E. Ensure total project costs are tracked, including village provided labor costs; develop timelines and cost estimates for the remaining lagoon project; and monitor progress of the project against those timelines and cost estimates. These monitoring activities should be documented and significant variations between estimates, actual events, and costs should be explained. Further, the Board of Trustees should work with the DNR to ensure the project is completed under a valid construction permit.
- F. Prepare and maintain adequate water and sewer system maintenance records and consider developing a plan to address future significant maintenance needs.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *We will review rates annually and will maintain documentation of how rates are calculated.*

- B. *We have implemented this recommendation.*
- C. *We will make all efforts to return deposits. The Clerk has reviewed all deposit information again, and the account now reconciles within \$5.*
- D. *We will comply with state statutes.*
- E. *We attempted to get grant money to fund this project. We did not qualify for grant money because we had too much money in the Water and Sewer Fund. We initially needed this upgrade for a business that was potentially going to annex. The annexation fell through and the priority of this project has lessened. We will explore this recommendation and will be in contact with the DNR.*
- F. *We plan to map out where the new meters have been installed. We will also review the inspection report again and deal with any issues that need addressed.*

4.	Village Disbursements
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The village did not have a contract for engineering services, and documentation of the approval of disbursements is not adequate. Further, the use of the village truck is not documented, and commuting mileage was not included on an employee's W-2 Form.

- A. Although the village solicited professional engineering services, the village did not enter into a written contract with the engineering firm for the construction of the community storm shelter. Engineering costs associated with the construction of the storm shelter were based on 6 percent of total construction costs and totaled approximately \$16,500.

Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. 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.

- B. The Board of Trustees does not adequately document its approval of disbursements, and some disbursements appear to have been made without the board's approval. A supplementary list of all disbursements is prepared by the Village Clerk for review by the Board of Trustees. The list does not document the Board of Trustees' approval and board minutes do not reference invoices to be paid or a total amount to be disbursed.

In addition, not all disbursements are included on the list. For example, the village disbursed \$82 to reimburse gas purchased by a board member in October and November 2007. These checks were signed by the Village Clerk and the

board member receiving payment, but were not included on the list of disbursements provided to the Board of Trustees.

To adequately document the board's approval of disbursements, a complete and detailed list of disbursements should be prepared, signed or initialed by the trustees to denote approval, and retained with the official minutes.

- C. During the 2 years ended December 31, 2008, the village spent approximately \$5,000 for fuel; however, fuel usage and mileage logs are not maintained to document the use of the truck. In addition, the village allows the Maintenance Supervisor, who resides outside the village limits, to commute to and from work in the village truck. The amount of personal (commuting) mileage was not documented or reported on the employee's W-2 Form.

Fuel usage and mileage logs are necessary to document the appropriate use of the village truck and support fuel charges. The logs should include the date, purpose and destination of each trip, fuel purchases, and the daily beginning and ending odometer readings. To ensure the reasonableness of fuel disbursements, the village should compare mileage logs to fuel purchased. Additionally, Internal Revenue Service (IRS) reporting guidelines indicate personal commuting mileage is a reportable fringe benefit. IRS guidelines require the full value of the provided vehicle to be reported if the employer does not require the submission of detailed logs which distinguish between business and personal usage.

- D. The village has not adequately evaluated cellular phone service plans or developed a formal written policy regarding cellular phone use. The Board of Trustees allows village provided phones to be used for both business and personal use. Until August 2008, two employees and two board members were assigned phones. In July 2007, the Board of Trustees agreed to increase the village's cellular phone plan to include an Internet connection at an increased monthly cost of \$71. In February 2008, the Board of Trustees approved buying out the higher priced Internet phone service plan and returning to a basic phone plan. The number of phones was reduced from four to three in August 2008, and further reduced from three to two in December 2008. Employees pay \$20 monthly to the village for personal use of the phones. The village disbursed an average of \$206 per month between July 2007 and January 2009 for cellular phone use.

While cellular phones can help increase employee productivity, they are also costly. Effective procedures should be implemented by the village to properly monitor cellular phone use. Additionally, the village should periodically evaluate the cost and distribution of cellular phones to ensure the most economical plan is obtained and all phones are needed and are of benefit to the village.

WE RECOMMEND the Board of Trustees:

- A. Enter into formal written contracts in accordance with state law.
- B. Document the approval of village disbursements by including a complete list of all disbursements in the board minutes and signing or initialing the list to denote approval.
- C. Ensure fuel usage and mileage logs are maintained for the village truck and periodically compare miles driven to fuel purchases for reasonableness. Additionally, the Board of Trustees should ensure the village complies with IRS guidelines for reporting personal commuting mileage.
- D. Develop a formal written policy regarding the use of cellular phones. In addition, the Board of Trustees should evaluate the use and acquisition of cellular phones and the village's cellular phone plan.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *We have a written proposal from the engineering firm but not a written contract. Contracts will be obtained in the future.*
- B. *We already receive a complete list, and we will sign and initial the list to show approval.*
- C. *The board has previously discussed this area in the past. We will address this issue and make a decision.*
- D. *We are now down to two phones and we will create a formal written cellular phone policy and check plans available and appropriate for the village's needs.*

5. Budgets and Financial Reporting

The village budget lacked some required information, and financial reports did not accurately reflect investment transactions. The Board of Trustees should document its approval of the budget, investment transactions, and transfers between funds. Additionally, actual receipts and disbursements should be periodically compared with budgeted amounts. Further, the Board of Trustees should prepare a formal plan for the use of the capital improvement sales tax funds.

- A. The village budget document was not complete and contained errors. Additionally, financial reporting needs improvement and the Board of Trustees should document its approval to redeem investments and transfer funds.

- A budget was not prepared for the Storm Shelter Fund. During 2006, 2007, and 2008, the village spent approximately \$280,000 constructing a storm shelter with grant funds (\$150,000) and local funds (\$130,000). The receipts and disbursements of the Storm Shelter Fund were not included in the village's budget document.
- Budgets did not include all information required by state law. Village budgets did not include a budget message, budget summary, beginning and ending available resources, and actual receipts and disbursements for the 2 preceding budget years.
- A transfer from the General Fund to the Storm Shelter Fund was not properly recorded in the village financial reports. In December 2007, the village redeemed a \$40,897 General Fund certificate of deposit and deposited these funds in the Storm Shelter Fund bank account.
- Budgets do not correctly report interest earned on investments. For example, the village redeemed a Water and Sewer Fund certificate of deposit in September 2007, totaling \$17,698, and reported the entire principle and interest amount as a receipt rather than reporting the interest of \$776 as a receipt and including the initial investment amount in the beginning cash balance.
- The budget document was not conspicuously marked as approved, and the Board of Trustees' meeting minutes did not document specific receipt and disbursement amounts approved in the budget. As a result, it was not readily apparent the operating budget used by the village was the one approved by the Board of Trustees. In addition, there was no documentation to indicate the Board of Trustees approved transfers between funds and redemptions of investments.

Section 67.010, RSMo, requires the preparation of an annual budget with specific information, and Section 67.080, RSMo, provides no expenditure of public monies shall be made unless it is authorized in the budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and funding expectations for each area of village operations and provide a means to effectively monitor actual receipts and disbursements. Additionally, complete and accurate financial statements and reports are necessary to keep the citizens informed of the financial activity and condition of the village. Further, the Board of Trustees should document its approval of the annual budget, investment redemptions, and transfers between funds.

- B. The Board of Trustees did not periodically compare actual receipts and disbursements with budgeted amounts. As a result, actual disbursements exceeded budgeted amounts for some funds. For example, General Fund

disbursements for the year ended December 31, 2008, exceeded budgeted amounts by approximately \$47,000. General Fund and Water and Sewer Fund disbursements for the year ended December 31, 2007, exceeded budgeted amounts by approximately \$67,000 and \$11,000, respectively. In January 2009 and 2008, the Board of Trustees approved amending the 2008 and 2007 budgets, respectively, to reflect actual receipts and disbursements; however, disbursements were already incurred and the budget amounts were already exceeded.

Section 67.040, RSMo, requires political subdivisions to keep actual disbursements within amounts budgeted unless the governing body adopts a resolution setting forth the facts and reasons for the increase. Budgets are a planning tool and should serve as a guide throughout the year to monitor receipts and disbursements. A periodic comparison of budgeted versus actual receipts and disbursements is necessary to properly monitor the financial condition of village funds.

- C. According to village financial reports, the village has accumulated monies in the CIST Fund and has spent very little for street improvement and repair. At December 31, 2008, the CIST Fund had a balance of over \$59,000, and the village only spent approximately \$5,000 in 2007 and \$700 in 2008 from the fund. The village receives approximately \$12,000 annually from a voter approved capital improvement sales tax that will sunset in 2010. The village has also deposited motor vehicle related fees received from the state of approximately \$7,000 per year into the CIST Fund.

According to village officials, the village has paid for the cost of street lighting out of the General Fund instead of using the motor vehicle related fees. While the CIST Fund is restricted for specific capital improvement projects, the motor vehicle related fees can be used for general road maintenance including street lighting. Considering the decline in the General Fund balance (see MAR finding number 1), village officials have indicated they are considering transferring approximately \$17,500 from the CIST Fund to the General Fund to reimburse for the cost of street lights since 2005.

The village does not have a plan for how the CIST Fund balance will be utilized. A formal plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in street improvements throughout the year.

WE RECOMMEND the Board of Trustees:

- A. Prepare complete and accurate budget documents and financial reports that comply with state law and accurately report the village's financial position. Additionally, the Board of Trustees should document its approval of the annual budget, investment redemptions, and transfers between funds.

- B. Periodically compare actual receipts and disbursements throughout the year with budgeted amounts and discontinue amending the budget after the year end to agree budgeted and actual amounts. If budget amendments are necessary, they should be made prior to incurring the actual disbursements and in compliance with state law.
- C. Prepare a plan to utilize the CIST Fund balance.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *Our 2009 budget complies with state law. Additionally, interest and transfers are now properly referenced in the village's financial reports. The board will document its approval of budgets.*
- B. *We are now printing budget to actual comparisons with a new accounting software program the Village Clerk recently implemented.*
- C. *We have been discussing a plan to improve village streets and intend to transfer \$17,500 to the General Fund to reimburse for the costs of street lights.*

6.	Accounting Controls
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The Board of Trustees does not provide adequate oversight of the accounting functions performed by the Village Clerk. Additionally, receipting and reconciling procedures need improvement and additional bond coverage should be obtained.

- A. Accounting duties are not adequately segregated, and there is no evidence the Board of Trustees provided adequate supervision or review of the work performed by the Village Clerk. Duties of the Village Clerk include receiving and recording utility payments, preparing utility bills, performing bank reconciliations, maintaining payroll records, preparing and distributing checks, and preparing monthly financial reports. Additionally, the Village Clerk provides one of the two required signatures on checks.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. Since the Village Clerk is the only office employee, proper segregation of duties may not be possible; therefore, a timely supervisory review of the Village Clerk's work should be performed and documented by the Board of Trustees.

- B. Procedures used to record monies received need improvement. Receipt slips are not always prepared, the method of payment received is not always documented, and checks and money orders received are not restrictively endorsed upon receipt.

The village collected approximately \$400,000 for the 2 years ended December 31, 2008, in water and sewer receipts and miscellaneous receipts such as grant awards, motor vehicle related fees, cellular phone reimbursements, sales of excess materials, and copy and fax fees.

Receipt slips are only issued when requested for miscellaneous receipts, and utility payments are recorded on a receipt log; however, the method of payment (cash, check, or money order) is not documented.

To ensure receipts are accounted for properly and to reduce the risk of loss or misuse of funds, receipt slips should be issued for all monies received. In addition, the method of payment received should be recorded on all receipt slips or receipt logs, and the composition of recorded receipts should be reconciled to the composition of bank deposits. Further, checks and money orders should be restrictively endorsed immediately upon receipt.

- C. Monthly bank reconciliations performed by the Village Clerk are not documented. Monthly reconciliations are necessary to ensure all accounting records balance, transactions have been properly recorded, and errors or discrepancies are detected on a timely basis. Complete documentation of the reconciliations should be maintained to support conclusions and corrections, and to facilitate independent reviews.
- D. The village does not have bond coverage for the two board members authorized to sign checks. Additionally, two signatures are required on checks: however, we identified one instance where a check was only signed by the Village Clerk.

Failure to properly bond all persons with access to assets exposes the village to risk of loss. All checks should be signed by at least one board member in accordance with board requirements.

WE RECOMMEND the Board of Trustees:

- A. Segregate accounting duties to the extent possible. If proper segregation of duties cannot be achieved, timely supervision or independent reviews of the Village Clerk's work should be performed and documented.
- B. Require receipt slips be issued for all monies received with the method of payment indicated and reconciled to the composition of deposits. Further, the Board of Trustees should require all checks and money orders be restrictively endorsed immediately upon receipt.
- C. Ensure the Village Clerk prepares and maintains documentation of monthly bank reconciliations.

- D. Obtain adequate bond coverage for all persons with access to village funds and ensure two signatures are on all village checks.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *The board plans to take a more active roll and provide accounting supervision.*
- B. *Receipt slips will be issued for payments received, and the method of payment is now indicated and reconciled to the composition of deposits. The water bills already have a receipt that is detached at time of payment. Checks are now restrictively endorsed when received.*
- C. *This recommendation has been implemented.*
- D. *We will ensure bond coverage is obtained for check signers.*

7. Capital Assets

The village does not maintain current, complete, and detailed records of capital assets, including land, buildings, vehicles, and equipment. While a list of assets is maintained for insurance purposes, the list is not complete. For example, control panels purchased for the wastewater treatment system in 2007, costing \$15,520, are not included on the list. In addition, property is not tagged for specific identification, and an annual physical inventory is not performed by the Board of Trustees.

Adequate capital asset records are necessary to ensure accountability for all items owned, determine the proper amount of insurance coverage, and provide a basis for proper financial reporting. Additionally, capital assets should be identified with a tag or other similar device, and the village should conduct annual physical inventories and reconcile the results to the detailed records.

WE RECOMMEND the Board of Trustees maintain complete and detailed capital asset records that include all pertinent information for each asset, such as description, cost, acquisition date, location, and subsequent disposition. These records should be updated for any property additions and dispositions as they occur. Further, all assets should be tagged or otherwise identified as village property, and the Board of Trustees should ensure annual physical inventories are performed and documented and the results are reconciled to the detailed list of assets.

AUDITEE'S RESPONSE

The Board of Trustees provided the following response:

We will ensure capital assets are tracked and records are maintained.

OVERALL VILLAGE RESPONSE

In summary, the Village Board would like to include in the response that there is no evidence of intentional loss or theft of village funds.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

VILLAGE OF COLLINS
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Village of Collins is located in St. Clair County. The village was incorporated in 1887. The population of the village in 2000 was 179.

The village government consists of a five member board of trustees. The members are elected for 2-year terms. The chairman is appointed by the board from the members. The Board of Trustees during the 2 years ended December 31, 2008, are identified below.

<u>Board of Trustees</u>	<u>Dates of Service During the 2 Years Ended December 31, 2008</u>
Chris Warson, Chairman (1)	April 2007 to December 2008
Hank Edler, Member (2)	January 2007 to December 2008
Allen Kauffman, Member (3)	January 2007 to February 2008
Sandra Mumford, Member	January 2007 to December 2008
Haven Vassey, Member (3) (4)	January 2007 to December 2008
Catherine Crawford, Member	April 2008 to December 2008
Lana Ritter, Member (1)	January 2007 to April 2007

- (1) Chris Warson was elected to the board in April 2007 to replace Lana Ritter. Ms. Warson was elected Co-Chairman in April 2008 and Chairman in December 2008.
- (2) Hank Edler became Chairman in February 2008 and resigned in December 2008. Shawna Herd was appointed to the vacated position in January 2009.
- (3) Allen Kauffman was Chairman from January 2007 until February 2008 when he resigned from the board. This trustee position remained vacant until April 2008 when Haven Vassey was appointed.
- (4) Haven Vassey lost his bid for election in April 2008 to Catherine Crawford, but was appointed by the board to replace the position vacated by Allen Kauffman.

<u>Other Principal Officials</u>	<u>Dates of Service During the 2 Years Ended December 31, 2008</u>	<u>Compensation Paid for the Year Ended December 31, 2008</u>	<u>Compensation Paid for the Year Ended December 31, 2007</u>
Pam Myers, Village Clerk	January - December	\$ 18,211	19,362
Mark Warson, Maintenance Supervisor (1)	January - December	31,610	35,934

- (1) Includes \$9,350 and \$10,200 additional compensation in 2008 and 2007, respectively for meter reading, mowing, and water and waste water testing. Mark Warson was on leave from his duties at the village November 7, 2008 to December 31, 2008.

In addition to the officials identified above, the city employed two part-time employees during the year ended December 31, 2007, and one part-time employee during the year ended December 31, 2008.

Assessed valuations and tax rates for 2008 and 2007 were as follows:

ASSESSED VALUATIONS	2008	2007
Real estate	\$ 973,203	928,737
Personal property	222,377	231,344
Total	\$ 1,195,580	1,160,081

TAX RATE(S) PER \$1 OF RETAIL SALES	2008 Rate	2007 Rate
General	\$.875	.875
Local use	.875	.875
Capital improvement	.0025	.0025

The capital improvement sales tax was approved November 2, 2004, and will expire in April 2010.

A summary of the village's financial activity for the 2 years ended December 31, 2008 is presented on the following pages.

VILLAGE OF COLLINS
YEAR END DECEMBER 31, 2008

	General Fund	Water and Sewer Fund	Meter Deposit Fund	Capital Improvement Sales Tax Fund	Storm Shelter Fund	Total
RECEIPTS						
Intergovernmental	\$ 6,820	0	0	0	14,269	21,089
Sales and use tax	41,782	0	0	0	0	41,782
Capital improvement tax	0	0	0	11,334	0	11,334
Motor fuel and vehicle fee	1,686	0	0	5,112	0	6,798
Water and sewer fees	0	41,564	324	0	0	41,888
Interest	1,314	2,863	209	204	0	4,590
Other	6,765	1,757	0	0	0	8,522
Transfers in	0	0	0	0	29,985	29,985
Total Receipts	58,367	46,184	533	16,650	44,254	165,988
DISBURSEMENTS						
Wages and benefits	34,376	25,246	0	0	0	59,622
Insurance	7,912	0	0	0	0	7,912
Storm shelter	0	0	0	0	44,501	44,501
Lagoon upgrade	0	810	0	0	0	810
Street repairs	0	0	0	734	0	734
Equipment	9,100	5,991	0	0	0	15,091
Supplies	1,026	2,132	0	0	0	3,158
Fuel	2,276	0	0	0	0	2,276
Legal fees	2,940	0	0	0	0	2,940
Propane	1,760	0	0	0	0	1,760
Training	613	956	0	0	0	1,569
Utilities	6,326	4,847	0	0	0	11,173
Dues & subscriptions	362	202	0	0	0	564
Reimbursements	759	0	0	0	0	759
Election services	437	0	0	0	0	437
Telephone/fax/cellular	3,607	0	0	0	0	3,607
Repairs & maintenance	3,067	2,811	0	0	0	5,878
Other	333	1,144	235	0	0	1,712
Transfers out	29,985	0	0	0	0	29,985
Total Disbursements	104,879	44,139	235	734	44,501	194,488
RECEIPTS OVER (UNDER)						
DISBURSEMENTS	(46,512)	2,045	298	15,916	(247)	(28,500)
CASH, JANUARY 1, 2008	57,284	85,535	8,571	43,842	250	195,482
CASH, DECEMBER 31, 2008	\$ 10,772	87,580	8,869	59,758	3	166,982

VILLAGE OF COLLINS
YEAR END DECEMBER 31, 2007

	General Fund	Water and Sewer Fund	Meter Deposit Fund	Capital Improvement Sales Tax Fund	Storm Shelter Fund	Total
RECEIPTS						
Intergovernmental	\$ 0	0	0	0	135,731	135,731
Sales and use tax	49,430	0	0	0	0	49,430
Capital improvement tax	0	0	0	11,919	0	11,919
Motor fuel and vehicle fee	0	0	0	7,430	0	7,430
Water and sewer fees	0	43,695	775	0	0	44,470
Interest	6,249	3,765	211	159	0	10,384
Other	5,633	0	0	0	0	5,633
Transfers in	0	0	0	0	86,175	86,175
Total Receipts	61,312	47,460	986	19,508	221,906	351,172
DISBURSEMENTS						
Wages and benefits	38,645	27,688	0	0	0	66,333
Insurance	9,740	0	0	0	0	9,740
Storm shelter	0	0	0	0	222,004	222,004
Lagoon upgrade	0	7,116	0	0	0	7,116
Street repairs	0	0	0	4,986	0	4,986
Equipment	807	7,068	0	0	0	7,875
Supplies	1,930	762	0	0	0	2,692
Fuel	3,224	0	0	0	0	3,224
Legal fees	2,940	0	0	0	0	2,940
Propane	2,170	0	0	0	0	2,170
Training	1,378	169	0	0	0	1,547
Utilities	4,996	3,413	0	0	0	8,409
Dues & subscriptions	370	240	0	0	0	610
Reimbursements	1,130	0	0	0	0	1,130
Election services	182	0	0	0	0	182
Telephone/fax/cellular	3,925	0	0	0	0	3,925
Repairs & maintenance	3,043	23,146	0	0	0	26,189
Other	133	886	624	0	0	1,643
Transfers out	86,175	0	0	0	0	86,175
Total Disbursements	160,788	70,488	624	4,986	222,004	458,890
RECEIPTS OVER (UNDER)						
DISBURSEMENTS	(99,476)	(23,028)	362	14,522	(98)	(107,718)
CASH, JANUARY 1, 2007	156,760	108,563	8,209	29,320	348	303,200
CASH, DECEMBER 31, 2007	\$ 57,284	85,535	8,571	43,842	250	195,482