



Susan Montee, JD, CPA
Missouri State Auditor

City of Richmond



June 2010
Report No. 2010-64

auditor.mo.gov



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

June 2010

The following findings were included in our audit report on the City of Richmond.

The methods used to determine the allocations of salaries and various overhead costs to the city's Water, Waste Water, and Solid Waste Funds (Enterprise Funds) are not reasonable. Administrative transfers totaling \$253,444 were made from the Enterprise Funds to the General Fund for salaries and related expenditures during the year ended September 30, 2008. Documentation of time spent related to Enterprise Fund activities does not exist to support the allocation. Additionally, for the year ended September 30, 2008, transfers totaling \$115,197 were made from the Enterprise Funds to the General Fund for a portion of administrative and overhead costs such as contractual services, materials, and supplies. These costs are allocated similarly to the salaries and fringe benefits, rather than determining the amount of time spent performing these functions or the actual usage of materials and supplies by the Enterprise Funds. None of the salary or other overhead costs are allocated to non-enterprise funds of the city. Furthermore, the city has not been allocating an occupancy cost for the allocable portion of the municipal complex to the various city departments and funds.

While the City Finance Director was able to provide rate studies prepared in the summer of 2007 to support the increases in water and sewer rates, she was unable to provide documentation as to how some of the amounts were calculated. Capital improvement sales tax monies were also not accounted for properly.

The city's procedures for maintaining bid documentation need improvement. The city was not able to locate original bid documentation for the Wellington Phase Two project (\$531,000) and documentation was not maintained to support the assessment of proposals submitted for landscaping of the new municipal complex. It is unclear how the city decided among the three designs submitted. The city did not ensure adequate documentation was obtained to support some expenditures, and the city purchasing policy does not address if change orders on construction projects require approval by the City Council. The city's procedure is to have the Mayor approve change orders on construction projects. The Mayor did not approve three of five change orders, totaling approximately \$10,600, on the Wellington Phase One project until the work was already completed and the final payment requested. Change orders totaling approximately \$600,000 on the municipal complex project were not approved by the City Council, increasing the cost of the project significantly. Bids were not solicited, as required by state law, for services performed for the city by former Mayor Green and Councilman Williams. In addition, the city did not always have formal written agreements with companies or individuals providing services to the city.

YELLOW SHEET

The City Collector has the ability to record customer utility account adjustments without any independent review or approval. The city does not perform monthly reconciliations of total billings, payments received, and amounts remaining unpaid for water and sewer services. Although reconciliations are prepared by the City Collector comparing the total gallons of water billed to customers to the total gallons of water pumped, there is no documentation the city investigated and resolved significant differences calculated in this comparison. Additionally, the Collector does not always deposit receipts on a timely basis and both the Fire Department and the Police Department maintain funds generated from fundraisers and special events in bank accounts outside the city treasury.

The City Council approved a deficit budget for the Municipal Complex Fund for the year ended September 30, 2008, and for the Municipal Complex Fund and General Revenue Fund for the year ended September 30, 2009. The City Council does not adequately monitor spending by periodically comparing actual expenditures to budgeted amounts, resulting in significant overspending in several city funds.

Closed meetings and committee meeting minutes were not always handled in accordance with state law. Meeting minutes were not sufficient to demonstrate how some issues discussed in closed meetings were allowable under the Sunshine Law. Minutes are not taken of meetings of city affiliated committees, including the Finance Committee, Ordinance Committee, Public Works Committee, and Public Safety Committee.

There is no documentation to support how city vehicle allowances were determined. Vehicle allowance payments totaling \$10,130 were made to the City Council, Mayor, City Administrator, City Clerk, and Recreation Director during the year ended September 30, 2008. In addition, controls over fuel usage are not adequate. Departments do not compare fuel purchased to records of miles driven for department vehicles and controls over use of gasoline and diesel fuel stored in bulk tanks need improvement. Furthermore, the city has no procedures in place to ensure all employees who operate city vehicles have valid driver's licenses.

Fire Department employees receive a salary and are paid bi-monthly but are not scheduled to work a set number of hours during each pay period, which resulted in inequitable pay for some Fire Department employees. We also identified instances where overtime was paid to Fire Department employees when not required by the Fair Labor Standards Act (FLSA). The city pays firemen \$2 per hour for on-call hours; however, it is not clearly documented in the city personnel policy.

Other findings in the audit report relate to Police and Animal Control Departments accounting procedures and capital assets.

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

CITY OF RICHMOND

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS.....	4-23
<u>Number</u>	<u>Description</u>
1.	Restricted Revenues.....5
2.	Expenditures7
3.	Accounting Controls and Procedures.....11
4.	Budgeting14
5.	Meeting Minutes and Public Records16
6.	City Vehicles.....17
7.	Payroll Procedures20
8.	Police and Animal Control Departments Accounting Procedures.....21
9.	Capital Assets.....22
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	24-26

STATE AUDITOR'S REPORT



SUSAN MONTEE, JD, CPA
Missouri State Auditor

To the Honorable Mayor
and
Members of the City Council
Richmond, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Richmond. The city engaged Westbrook & Co., P.C., Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended September 30, 2008. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended September 30, 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. Evaluate the city's internal controls over significant management and financial functions.
3. Evaluate the city's compliance 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 city, 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 contracts 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 city's management and was not subjected to the procedures applied in our audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Richmond.

An additional report, No. 2009-133, *Eighth Judicial Circuit, City of Richmond, Municipal Division*, was issued in November 2009.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Alice M. Fast, CPA, CGFM, CIA
Audit Manager: Todd M. Schuler, CPA
In-Charge Auditor: Lori Bryant

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF RICHMOND
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Restricted Revenues

The allocation of administrative expenses to the city's Water, Waste Water, and Solid Waste Funds (Enterprise Funds), including salaries, contractual services, and supplies, is largely based on the workload of four employees, rather than based on time studies for all applicable employees and examining the use of other services and supplies by these funds. Documentation to support the rate studies for utilities was inadequate. In addition, the city is not separately accounting for the monies from the new park capital improvement sales tax.

A. While the city has conducted an analysis of overhead and services provided to determine the percentage of costs that should be allocated to various Enterprise Funds, the methods used to determine the allocations are not reasonable. Timesheets are not prepared by administrative staff to document time spent on particular activities and thus, the city cannot adequately allocate payroll costs to ensure costs are charged to the appropriate funds.

1) Administrative transfers totaling \$253,444 were made from the Enterprise Funds to the General Revenue Fund during the year ended September 30, 2008, to allocate salaries, fringe benefits, training, and travel costs of various employees and officials. These employees/officials include the City Administrator, Finance Director, City Clerk, City Council, and administrative personnel in the City Collector's office. Documentation of time spent related to Enterprise Fund activities does not exist to support the allocation of these salaries, and none of the salaries are allocated to non-enterprise funds operated by the city. Timesheets are not prepared by these personnel to indicate the hours worked by activity for each employee nor has the city performed a time study to serve as a basis for allocating salary and fringe benefits to the appropriate funds. Instead these salaries and related personal service costs are allocated based on the workload, not amount of time spent, of just four administrative employees (City Collector, accounts payable/payroll and human resources clerk, receptionist/cashier, and meter reader/receptionist/cashier).

2) A portion of administrative and overhead costs paid from the General Fund are allocated to the Enterprise Funds. For the year ended September 30, 2008, transfers totaling \$115,197 were made from these funds to the General Fund to cover their share of administrative and overhead costs, which include contractual services, materials, and supplies. The majority of these costs are allocated using the same method as described in part A.1, rather than the amount of time spent performing

functions or the actual usage of materials and supplies by the various Enterprise Funds. None of these administrative and overhead costs are allocated to non-enterprise funds of the city.

- 3) The city has not allocated an occupancy cost to the various city departments and funds for the allocable portion of the municipal complex. Any allocation done should be limited to the amount of the complex payments that exceed the dedicated sales tax collected to pay for the municipal complex. Currently, the amount collected from the sales tax is not sufficient to make the annual principal and interest payments on the complex loans and the excess is paid from the General Revenue Fund.

To ensure restricted funds are spent appropriately and expenditures are allocated to the various funds in proportion to the benefits received, the city should review its allocation methods for reasonableness and include all allocable costs in those calculations.

- B. While the City Finance Director was able to provide rate studies prepared in the summer of 2007 to support the increases in water and sewer rates, she was unable to provide documentation as to how some of the amounts were calculated. The rate study prepared to establish sewer rates documented the levels of revenues necessary to operate the system, but did not document the expected operating costs.

An additional rate study may be necessary to consider all current factors and ensure rate increases will cover operating costs, but are not excessive. 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.

- C. Capital improvement sales tax monies are not accounted for properly. In April 2008, voters passed a sales tax for city parks. The ballot indicates the purpose was to provide funding for "capital improvements in city parks." The sales tax collections are placed in the Park Fund, but no separate accounting has been established to ensure the monies are only used for capital improvements.

Section 644.032, RSMo, states that all revenue from the tax authorized under the provisions of this section shall be deposited in a special trust fund to ensure they are spent for the specific purpose approved by voters. In addition, separate records of revenues and expenditures would help inform the city residents of the specific projects funded by the sales tax.

WE RECOMMEND the City Council:

- A. Ensure all expenditures are properly allocated to the various funds and are supported by adequate documentation. For the Water, Waste Water, and Solid Waste Funds this documentation should include conducting a formal analysis of

overhead and services to determine the percentage of costs related to each fund and a formal time study to ensure payroll costs are charged to the appropriate funds.

- B. Ensure formal rate studies are performed for all Enterprise Funds and all related documentation is maintained.
- C. Ensure the park capital improvement sales tax monies are accounted for separately and spent in accordance with the purpose of the sales tax.

AUDITEE'S RESPONSE

The City Council provided the following written responses:

- A. *The City worked with its contracted auditing firm in 2009 to develop cost allocation methods and followed the recommendations of its auditor. The City will further ensure that expenditures are properly allocated to various funds by immediately requiring use of daily work logs for all employees not already completing one in order to track time by department billing code based on actual time spent per task. Similarly, the City will allocate costs of contractual services, materials and supplies. Occupancy costs will be allocated on a per square foot basis.*
- B. *The City will ensure rate studies are performed based on water, wastewater, and solid waste system costs by October 1, 2010.*
- C. *The City will ensure that the park capital improvement sales taxes are separately accounted for and spent in accordance with the purpose of the sales tax by implementing appropriate accounting changes as a part of the FY 2011 budget beginning October 1, 2010.*

2.

Expenditures

The city's procedures for maintaining bid documentation need improvement and adequate supporting documentation was not always maintained for city purchases. Approval and documentation related to some change orders on construction projects was lacking and state law was not followed related to some payments made to businesses owned by council members. In addition, the city did not have written agreements with some companies.

- A. City bid records need improvement.
 - The city was not able to locate original bid documentation for the Wellington Phase Two project (\$531,000). In addition, the bid tabulation sheet for this project indicates the selected bidder did not submit the lowest bid by

approximately \$14,000, and there was no documentation to explain why the low bid was not accepted.

- While city officials indicated they advertised for bids, documentation to support the bid advertisement was not retained for several items reviewed.
- Documentation was not maintained to support the assessment of proposals submitted for landscaping of the new municipal complex, and it is unclear how the city decided among the designs submitted. Proposals were solicited from three vendors for landscaping designs. The specifications indicated the amount the city had to spend (\$10,000) and vendors were simply told to offer their best design. While an independent person offered to evaluate the designs, no documentation was maintained of this assessment and no documentation exists to support how the selected vendor was chosen.

The city bid policy indicates all bid documentation should be on file with the City Clerk's office and retained. City officials indicate part of the problem with locating some bid documentation was due to items misplaced during the move to the new municipal complex. For future bids, all documentation should be retained in accordance with city policy so there is a clear audit path linking the solicitation process, evaluation, award, and payment.

B. The city does not ensure adequate documentation is obtained to support some expenditures.

- The original invoice was not attached to the request for a wire payment for \$67,300 to a construction company. We were eventually able to locate a detailed pay application in the City Clerk's files.
- Reimbursable expenses totaling \$1,405 for an engineering consulting firm included mileage and fees for a rental car; however, a receipt from the rental car company was not attached.
- The only support for a \$2,000 payment related to the municipal complex was an invoice that stated "dirt work." The invoice included no details as to how long the contractor worked or the specific work performed.

All expenditures should be supported by a vendor invoice or other related supporting documentation to ensure the obligation was actually incurred. In addition, to ensure the validity of payments for certain services received, the city should require invoices be sufficiently detailed to include services rendered, including the number of hours worked by day, the work performed, and the hourly rate charged.

C. The city purchasing policy does not address if change orders on construction projects require approval by the City Council. The city's procedure is for the

Mayor to approve change orders on construction projects. We reviewed various change orders submitted on three large construction projects and identified the following concerns:

- The former Mayor did not approve three of five changes orders, totaling approximately \$10,600, on the Wellington Phase One project until the work was already completed and the final payment requested.
- The city was unable to locate a change order for the Downtown Revitalization project totaling \$3,675.
- Several change orders were submitted, totaling approximately \$600,000, for the municipal complex project that were not approved by the City Council. The original construction bid submitted for the project was approximately \$4.7 million and numerous changes were made to the design of the complex to reduce the construction contract to approximately \$3.9 million. After the bid was awarded, several change orders were approved by the former Mayor increasing the final construction cost of the project to approximately \$4.5 million. Including approximately \$500,000 spent for other miscellaneous items such as security systems; surveys, dirt work and landscaping; furniture and trim work; and city labor costs, the final total cost of the municipal complex was approximately \$5.1 million. In June 2008, when the majority of these change orders were complete, the City Council approved borrowing an additional \$1 million to pay for the additional costs from the change orders and the miscellaneous costs, but there is no evidence these change orders were presented to and approved by the Council. While there is evidence that various change orders were discussed in a Finance Committee meeting in October 2007, the minutes do not detail which projects the change orders were for and do not indicate approval of the orders by the Finance Committee, just that they were discussed. The minutes of the City Council meetings do not indicate any significant discussions of change orders on this project.

Change orders are normally used to make adjustments for minor problems that are unknown when projects and purchases are originally bid. The city should develop a policy for how change orders will be approved, and by whom, and specifically indicate at what dollar amount increase change orders must be brought before the City Council for approval. Such a policy would help ensure change orders are approved by the appropriate party in a timely manner, and the public is made aware of significant changes to construction projects.

- D. During the year ended September 30, 2008, the trucking company owned by former Mayor Green was paid \$2,501 (four invoices, with two being over \$500) for hauling materials and no bids were solicited for these services. In addition, invoices from this company for payments totaling \$1,774 did not include sufficient supporting documentation. There were no scale tickets attached to

confirm the weight of sand hauled. One invoice for hauling did not indicate sufficient documentation regarding actual miles traveled to determine if the amount charged was reasonable. In addition, the city paid a business owned by Council Member Tom Williams \$10,537 for carpentry work on the new municipal complex. While this work was advertised for bid, the only bid received was for \$9,031, and the city paid an additional \$1,506, which was not included in the original bid.

Sections 105.454 and 105.458, RSMo, prohibit financial transactions between the city and elected or appointed officials or employees that involve more than \$500 unless there has been public notice to solicit proposals and competitive bidding.

- E. The city did not always have formal written agreements with companies or individuals providing services to the city. For example, the city did not have a written agreement with the Lafayette County Sheriff for boarding city prisoners during the year ended September 30, 2008, (approximately \$16,500 expended) or with the company that installed the baseball field lights in September 2008 for \$17,950.

Section 432.070, RSMo, requires contracts of political subdivisions be in writing. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

WE RECOMMEND the City Council:

- A. Ensure all related bid documentation is maintained, including the reasons for city decisions, newspaper advertisements, and actual bids received.
- B. Ensure obligations are actually incurred and properly approved, and all expenditures are supported by original invoices and supporting documentation.
- C. Amend the purchasing policy to address how change orders will be authorized and who will approve them. In addition, the Council should adopt procedures to ensure change orders are approved timely and retained in the files.
- D. Comply with state law relating to payments made to businesses owned by city officials.
- E. Obtain and retain formal written agreements that specify the services to be rendered and the manner and amount of compensation to be paid.

AUDITEE'S RESPONSE

The City Council provided the following written responses:

- A. The City has implemented improved record retention practices and will ensure that all related bid documentation materials are maintained.*
- B. The City has implemented improved record retention practices and will ensure that all documentation is retained demonstrating that all expenditures for obligations are actually incurred, properly approved, and supported by invoices and related documents.*
- C. The City will amend its purchasing policy by June 22, 2010 to address authorization and approval of change orders and to ensure change orders are approved timely and retained in the appropriate files.*
- D. The City has a new Mayor and Council members in place and going forward intends to comply with state law relating to payments to businesses owned by City officials. The City was unaware of the applicability of these rules and regulations to change orders on projects that had been previously bid as required by state law but will ensure that the applicable requirements are followed in the future.*
- E. The City will adopt a policy by June 22, 2010 to ensure that it obtains formal written agreements with companies, individuals, and other governmental entities specifying the services to be rendered and the manner and amount of compensation to be paid.*

3. Accounting Controls and Procedures
--

Controls over utility adjustments need improvement, monthly reconciliations for water and sewer receivables are not performed, delinquent reports are not maintained, and significant water losses have not been investigated. Accounting controls related to deposits, manual receipt slips, and funds held outside the city treasury by the Police and Fire Departments need review.

- A. The City Collector has the ability to record customer utility account adjustments without any independent review or approval. City ordinances provide for the Water Committee to approve adjustments. Per the City Collector, committee approval is verbal, and the City Finance Director does not routinely review all adjustments.

Proper approval/authorization for adjustments is necessary to ensure only the proper accounts and amounts are adjusted and to reduce the risk of misstatement or misappropriation. A documented, periodic, independent comparison of authorized adjustments to the adjustment report should be performed to ensure all adjustments are proper.

- B. The city does not perform monthly reconciliations of total billings, payments received, and amounts remaining unpaid for water and sewer services. In addition, while the City Collector indicated she prints out a report of delinquent accounts, makes phone calls, and sends out shut-off notices, she does not provide this report to the City Council or the City Finance Director or retain the report after either a payment has been made or the customer's service has been shut off for all accounts on the report.

Monthly reconciliations are necessary to ensure all accounting records balance, transactions have been properly recorded, and any error or discrepancies are detected on a timely basis. Complete documentation of the reconciliation should be retained to support conclusions and any corrections made, and to facilitate independent review. In addition, to ensure all utility customers are treated equitably and city ordinances are followed, the City Collector should maintain a report of delinquent accounts along with documentation of the action taken to collect unpaid amounts.

- C. Although reconciliations are prepared by the City Collector comparing the total gallons of water billed to customers to the total gallons of water pumped, there is no documentation the city investigated and resolved significant differences calculated in these comparisons. For the year ended September 30, 2008, the total gallons of water not billed was 35 percent.

To help detect significant water loss on a timely basis and ensure all water usage is properly billed, the city should document its review of the differences and efforts to resolve them.

- D. The Collector does not always deposit receipts on a timely basis. During a cash count on April 20, 2009, the Collector had on hand receipts from the 3 previous business days totaling approximately \$26,900. In addition, the Collector's office allows employees to cash personal checks from daily cash receipts.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, receipts should be deposited intact in a timely manner. In addition, cashing employee personal checks from daily cash receipts reduces the accountability of monies received.

- E. The Collector's office issues manual receipt slips for transmittals from the Police Department, liquor licenses, and new water meter deposits. The corresponding computer receipt slip number is not recorded on the manual receipt slip after the information is entered into the city computer system, and there is no independent review to ensure all manual receipts are properly entered into the computer and subsequently deposited.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, procedures should be established to account for manual receipt slips and verify the receipts have been recorded on the computer and deposited.

- F. Both the Fire Department and the Police Department maintain funds generated from fundraisers and special events held specifically for these departments in bank accounts outside the city treasury. These bank accounts are not subject to the existing internal control system of the city. As of May 31, 2009, there was \$5,859 in the Police Department Fund and \$904 in the Fire Department Fund.

To ensure city funds are spent appropriately, all funds received by the Police and Fire Departments from fundraising activities should be remitted to the city treasury in the same manner other fees collected are remitted. All purchases should be made within the city's established procurement system.

WE RECOMMEND the City Council:

- A. Adequately monitor adjustments made to customer accounts.
- B. Perform monthly reconciliations of the amounts billed to amounts collected and delinquent accounts. The Council should require the City Collector to periodically provide the report of delinquent accounts.
- C. Review the monthly reconciliation of the total gallons of water billed and pumped, and document the investigation and resolution of significant differences.
- D. Discontinue the practice of cashing personal checks for employees and deposit receipts intact on a timely basis.
- E. Ensure manual receipt slips are recorded on the city computer system and accounted for properly.
- F. Require these funds be included on the city's accounting records, remitted to the City Treasurer, and expended in the same manner as other city monies.

AUDITEE'S RESPONSE

The City Council provided the following written responses:

- A. *For the past six months, all utility adjustments have been approved by the City Council. The City will adopt changes by October 1, 2010 to its policies on utility adjustments including creating a form to be completed by the City Collector authorizing adjustments to be approved by the City Council. The City Finance Director will immediately begin printing a utility adjustments report at the end of each month to be compared to authorized adjustments.*

- B. *The City Finance Director will immediately reconcile on a monthly basis the amount of accounts receivable by adding new billing and subtracting payments and adjustments from the previous month balance to verify the accuracy of the new balance. This reconciliation will be kept on file with the records for that month. The City will adopt a policy by June 22, 2010 requiring a delinquent accounts report printed from the computer to be kept on file with handwritten notes beside each account of any action taken to collect the unpaid amounts.*
- C. *The City will review the monthly reconciliation report of total gallons of water billed versus gallons pumped and take all reasonable actions to identify and document the basis for significant differences, including water loss due to leaks and other issues related to the condition of the City's water system infrastructure.*
- D. *The City has stopped the past practice of allowing employees to cash personal checks from daily cash receipts. The City has implemented a procedure to ensure deposit receipts are taken to the bank each business day by an employee not directly involved in the collection of funds.*
- E. *The City will adopt a policy by July 13, 2010 requiring pre-numbered duplicate manual receipt slips to be used by the City Collector's office. These duplicates will be sent to the City Finance Director for review and verification that the monies were entered into the computer and deposited in the bank.*
- F. *The City will adopt a policy by July 13, 2010 requiring all funds raised or collected by or for the City to be included in the City's accounting records to ensure appropriate use of these funds.*

4.	Budgeting
-----------	------------------

The City Council budgeted a deficit balance for the Municipal Complex Fund and actual expenditures exceeded the budgeted amounts in some funds.

- A. The City Council approved a deficit budget for the Municipal Complex Fund for the year ended September 30, 2008, and for the Municipal Complex Fund and General Revenue Fund for the year ended September 30, 2009. While the budget was amended twice during the course of the year ended September 30, 2008, it was not until filing the second amendment at the end of the year that budgeted revenues were increased and the fund balance was not projected to be a deficit.

Section 67.010, RSMo, and Article VI, Section 26(a), Missouri Constitution, prohibit deficit budgeting. When preparing city budgets and budget amendments, the City Council should carefully review the summary of available resources, estimated revenues, and appropriations to ensure a balanced budget is maintained.

- B. The City Council does not adequately monitor spending by periodically comparing actual expenditures to budgeted amounts. For the year ended September 30, 2008, actual expenditures per the city's audited financial statements exceeded budgeted amounts as follows:

Fund	Budgeted Expenditures	Actual Expenditures	(Over) Budget
General Revenue	\$ 2,721,375	3,116,252	(394,877)
1/2 Cent Sales Tax	913,800	1,050,099	(136,299)
Parks	132,300	134,596	(2,296)
Police Training	5,320	8,888	(3,568)
Solid Waste	196,941	203,059	(6,118)

The city prepared budget amendments for some funds in March and September 2008, but amendments were not prepared for the Police Training Fund or the Solid Waste Fund. The city did not set forth any reasons for exceeding the budgeted amounts for these funds in the Council meeting minutes or adopt a resolution authorizing the additional expenditures.

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 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 should be made unless it is authorized in the budget. The city should formally amend the budget before the related expenditures are incurred.

WE RECOMMEND the City Council:

- A. Discontinue appropriating expenditures in excess of available resources.
- B. Refrain from authorizing expenditures in excess of budgeted amounts. If valid reasons necessitate excess expenditures, the original budget should be formally amended.

AUDITEE'S RESPONSE

The City Council provided the following written responses:

- A. *The City adopted an ordinance on March 23, 2010 that addresses this recommendation by incorporating the budget requirements for cities in Chapter 67 RSMo into the City Code, including a provision that prohibits total proposed expenditures from any fund exceeding the estimated revenues to be received plus any unencumbered balance or less*

any deficit estimated for the beginning of the budget year, pursuant to the Missouri Constitution and Section 67.010 RSMo.

- B. *The City adopted an ordinance on March 23, 2010 that addresses this recommendation by incorporating the budget requirements for cities in Chapter 67 RSMo into the City Code, including a provision that requires additional expenditures during the year approved by the City Council to also include approval of a budget amendment for the expense at that same time. Budget amendments to reallocate the budget within a department but with no additional total expenses for the budget for the department will occur twice a year in March and September.*

5.

Meeting Minutes and Public Records

Closed meetings and committee meeting minutes were not always handled in accordance with state law. In addition, amounts charged for making copies related to public records requests are not in compliance with state law.

- A. Meeting minutes were not sufficient to demonstrate how some issues discussed in closed meetings were allowable under the Sunshine Law. These issues included names of interested residents for the Ward I council position, the budget, and Recreation Department finances.

To ensure compliance with state law, the Council should restrict discussion in closed sessions to the specific topics listed in the Sunshine Law, Chapter 610, RSMo.

- B. The hourly rate charged for making copies by the city is not in compliance with city ordinance or state law. The City Council approved a price sheet setting the hourly rate for clerical services at \$25 at the August 13, 2008, meeting. There is no documentation as to how the \$25 was determined. It is more than the hourly rate of pay (approximately \$17 per hour) for the City Clerk, who normally fulfills the requests for documents. City ordinance sets the rate at \$10 for document search, but the invoices for document requests we reviewed showed charges using the \$25 rate and others using a rate of \$15, apparently dependent upon who made the copies.

Section 610.026, RSMo, indicates the hourly fee for duplicating time is not to exceed the average hourly rate of pay for clerical staff of the public governmental body.

- C. Minutes are not taken of meetings of city affiliated committees including the Finance Committee, Ordinance Committee, Public Works Committee, and Public Safety Committee. The City Clerk prepares the meeting notices and agendas for committee meetings and the Park Board; however, only the Planning and Zoning Board, Board of Zoning Adjustments, and Park Board file meeting minutes with

the City Clerk. The committees do not generally prepare minutes of meetings, instead, the head of the committee gives a verbal report of the meetings at the regular City Council meetings.

Complete and accurate minutes provide an official record of committee actions and should be maintained for all city committees as required by Section 610.020, RSMo. The minutes of all committees should be filed with the City Clerk as the official custodian of records.

WE RECOMMEND the City Council:

- A. Ensure topics discussed in closed meetings are allowed by state law.
- B. Review the hourly fee charged for duplicating public records and ensure the rate charged complies with state law and city ordinance.
- C. Ensure minutes of meetings of city affiliated committees are complete, properly signed, and copies filed with the City Clerk.

AUDITEE'S RESPONSE

The City Council provided the following written responses:

- A. *The City Council has recently undergone Sunshine Law training with the Attorney General's office. In addition, the City Attorney now attends all Council meetings including closed sessions and provides legal advice to help the Council ensure that topics discussed in closed sessions are allowed by state law.*
- B. *The City adopted Ordinance No. 2141 on September 22, 2009 establishing a new open meetings and records policy that complies with state law. The City will ensure that fees actually charged for duplication of public records comply with this ordinance and state law.*
- C. *The City will ensure effective May 3, 2010, that minutes of meetings of City Council standing committees and other City appointed committees are prepared and filed with the City Clerk as required by state law.*

6.

City Vehicles

There is no documentation to support how city vehicle allowances were determined. Records of fuel usage are not reviewed and a complete inventory record of bulk fuel is not maintained. In addition, procedures are not in place to ensure all employees who drive city vehicles have a valid driver's license.

- A. Vehicle allowance payments totaling \$10,130 were made to the City Council (\$45 monthly), Mayor (\$150 monthly), City Administrator (\$200 monthly), City Clerk (\$100 monthly), and Recreation Director (\$50 monthly) during the year ended September 30, 2008; however, the payments were not based on actual expenses incurred. The city does not have documentation to support how these amounts were determined.

In addition, these employees are also allowed additional reimbursement for actual mileage incurred outside of the city. The city began paying \$200 monthly car allowances to the Public Works Director in October 2008 and to the Police Chief in February 2009. Council member allowances were eliminated in October 2009. The city has no documentation to show the allowance amounts are reasonable compared to actual expenses incurred, and considering additional mileage is paid for travel outside of the city, some monthly allowance amounts may be unreasonable. Using the city's current mileage reimbursement rate of 44.5 cents per mile, the \$200 monthly allowance represents approximately 449 miles per month. The car allowances are included on the W-2 forms and payroll taxes are withheld.

To ensure mileage allowances are reasonable, the city should review mileage allowances paid and set the allowances to reflect actual expenses incurred by the officials.

- B. Controls over fuel usage are not adequate. Through its various departments, the city owns and operates approximately 35 vehicles and spent approximately \$78,000 on fuel during the year ended September 30, 2008. Fuel tickets are not always submitted monthly to the accounts payable clerk responsible for paying the fuel bills. Although the department heads indicated they review the monthly billing of fuel purchases for reasonableness, none compare the fuel purchased to records of miles driven. Police officers record the miles driven each day on daily activity logs while Fire Department employees include a daily odometer reading on a monthly vehicle checklist. The Public Works Department maintains maintenance logs for each vehicle, which include an odometer reading; however, at least one vehicle does not have a working odometer. Furthermore, the Public Works Department also purchases gasoline and diesel in bulk and stores the fuel in two city-owned fuel tanks. However, the city has not installed flow meters on these tanks and no procedure is performed to periodically measure the amount of fuel on hand. As a result, the city cannot determine the reasonableness of fuel purchases for the bulk tanks.

To ensure the reasonableness of fuel expenditures, the department heads should compare the fuel purchased to vehicle usage records. To ensure the reasonableness of bulk fuel expenditures, the city should maintain complete records of fuel use and reconcile to bulk fuel purchases and fuel on hand, and investigate any differences. The failure to compare fuel usage records and gas tickets to vendor billings and analyze vehicle mileage as compared to fuel usage,

increases the possibility the city may pay improper billing amounts and theft or misuse of fuel could occur and go undetected.

- C. The city has no procedures in place to ensure all employees who operate city vehicles have valid driver's licenses. The payroll clerk generally makes a copy of an employee's driver's license when he/she is first hired; however, there is no on-going or periodic license status check performed. In April 2008, all city employees were requested to submit a copy of their current license to the city, but not all employees complied with this request. To ensure all employees driving city-owned vehicles have valid licenses, the city should consider periodically checking the validity of employees licenses.

WE RECOMMEND the City Council:

- A. Review vehicle allowances and set the allowances to reasonably reflect the actual expenses incurred by the applicable officials.
- B. Require fuel usage and purchase records be reviewed for completeness and reasonableness of usage, and used to verify vendor billings. In addition, the City Council should ensure inventory records of bulk fuel tanks are maintained by the Public Works Department.
- C. Establish procedures to ensure employees are not driving city vehicles without a valid driver's license.

AUDITEE'S RESPONSE

The City Council provided the following written responses:

- A. *The City adopted a policy on April 13, 2010 to address vehicle allowances. The City will further review the actual expenses incurred periodically to ensure that the vehicle allowances are reasonable.*
- B. *The City implemented on May 10, 2010, a vehicle log for all fuel powered equipment and vehicles to assist in documenting and monitoring completeness and reasonableness of fuel usage and to ensure vendor billings are accurate. The City will also immediately implement use of a bulk fuel log and ensure inventory records are maintained by the Public Works Department.*
- C. *The City will implement a policy effective June 22, 2010 requiring at a minimum annual re-inspection of employee driver licenses to ensure validity.*

We identified several concerns related to the calculations of Fire Department employee compensation.

- A. Fire Department employees receive a salary and are paid bi-monthly. The employees are not scheduled to work a set number of hours during each pay period, which resulted in inequitable pay for some department employees. The Fair Labor Standards Act of 1938 (FLSA) establishes 212 as the number of hours fire department employees can work in a 28-day period before overtime pay is required. City Fire Department employees generally work in 24-hour shifts, but their salary is paid based on 80 hours worked per 2-week pay period as long as hours worked total 212 or less in 28 days. A department employee working 190 hours in a 28-day period is compensated the same as an employee working 212 hours in a 28-day period. We reviewed six Fire Department employee timesheets for the period April 22, 2009, through May 19, 2009, and found that although all six employees were paid for 160 hours for the 4-week period, one employee worked 170 hours, while another worked 212.

To ensure Fire Department employees are treated equitably, the city should reconsider the way salaries are computed or discuss changes in scheduling employees. The City Council needs to establish the number of hours it expects Fire Department employees to work for the compensation received and ensure employees are scheduled accordingly.

- B. Instances were identified where overtime was paid to Fire Department employees when not required by the FLSA. Holiday, vacation, and sick leave used by employees is included in total hours worked when computing overtime hours, which is not required by the FLSA. The city personnel policy indicates holiday hours will be included in hours worked, but does not indicate vacation or sick leave will be included. We reviewed timesheets for seven Fire Department employees for the period May 20, 2009, through June 16, 2009, and determined vacation leave was included in their total hours and each was paid overtime, although not required by the FLSA. One of the timesheets indicated 222 total hours worked, including 24 vacation hours, meaning this employee actually only worked 198 hours; however, this employee received overtime compensation for 10 hours.

While the city is in compliance with the FLSA, the act only requires fire department employees to be compensated at time and one-half for work hours in excess of 212 hours in a 28-day pay period, not including holiday, vacation, or sick leave hours. Considering the city personnel policy does not allow leave hours to be included in the calculations for overtime pay, this difference unnecessarily results in higher Fire Department payroll costs.

- C. The city pays firemen \$2 per hour for on-call hours; however, this policy it is not clearly documented in the city personnel policy. To ensure employees are compensated in accordance with personnel policies, the city needs to formally document policies for on-call pay.

WE RECOMMEND the City Council:

- A. Establish the number of hours Fire Department employees are expected to work.
- B. Ensure overtime is calculated in accordance with city policy. The City should consider paying overtime compensation based on FLSA requirements.
- C. Address on-call hours in the personnel policy.

AUDITEE'S RESPONSE

The City Council provided the following written response:

The City will perform a full review and evaluation of Fire Department payroll policies and procedures by August 31, 2010 to ensure all actions are being performed in accordance with adopted City policies, to identify any policy revisions that need to be made to ensure compliance with FLSA requirements and other applicable laws, and to implement any such necessary revisions.

8. Police and Animal Control Departments Accounting Procedures

Controls over monies collected at the Police and Animal Control Departments need improvement.

- A. Monies are transmitted to the City Collector's office only once a month. To adequately safeguard monies collected and reduce the risk of loss or misuse of funds, receipts should be transmitted to the City Collector intact timely.
- B. Receipt slips are not issued for all monies received by the Police Department and the Animal Control Department issues unnumbered receipt slips for monies it collects. The Animal Control Department receipts are transmitted to the Police Department and stored in a lock box with Police Department receipts. Monies turned over by the Animal Control Department and monies received in the mail at the Police Department are not recorded until transmitted to the City Collector's office. To help ensure receipts are properly recorded and transmitted, prenumbered receipt slips should be issued for all monies received immediately upon receipt.
- C. Some receipt slips issued do not indicate the method of payment, which does not allow for a comparison of the composition of receipts to transmittals. To ensure

all receipts are properly transmitted to the City Collector, receipt slips should indicate the method of payment (ie. cash checks, or money orders) and the composition should be reconciled to amounts transmitted.

- D. None of the 12 checks on hand during the cash count conducted in April 2009, were restrictively endorsed. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.

WE RECOMMEND the City Council:

- A. Ensure transmittals are made to the City Collector on a timely basis.
- B. Ensure prenumbered receipt slips are issued for all monies received and the numerical sequence of receipt slips issued is accounted for properly.
- C. Ensure the method of payment is indicated on receipt slips and the composition of receipt slips is reconciled to amounts transmitted to the City Collector's office.
- D. Ensure checks are restrictively endorsed immediately upon receipt.

AUDITEE'S RESPONSE

The City Council provided the following written response:

The City will adopt a policy by July 27, 2010 to ensure compliance with all recommendations related to receipt slips, timely transfer of funds to the City Collector, and restrictive endorsement of checks upon receipt.

9.

Capital Assets

The city does not maintain complete and detailed records of its capital assets, including land, buildings, equipment, and furniture. In addition, property is not tagged for specific identification and an annual physical inventory of the property is not performed.

The Finance Director maintains a computer spreadsheet to track the city's capital assets. However, the spreadsheet only has summary totals (\$490,000 in building and land improvements and \$1,579,000 in equipment) for older assets and does not indicate the individual assets making up these summary totals. We selected a tanker truck vehicle from the Fire Department and a patrol car from the Police Department, but were unable to locate the vehicles in the city's capital asset records. While the Finance Director performed a physical inventory in June 2006, when she started working for the city, she did not make any attempts to reconcile the results with the summary totals and no physical inventories have been performed since. In addition, the spreadsheet does not always include all relevant information such as make, model, serial numbers, historical costs, or acquisition date, and the assets are not tagged as property of the city.

Property records for capital assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage. To develop appropriate records and procedures for capital assets, the city should undertake a comprehensive review of all property owned by the city and ensure all assets are tagged for specific identification. In addition, the city should maintain property records on a perpetual basis, accounting for property acquisitions and dispositions as they occur. Annually, the city should conduct physical inventories and compare to the detailed records.

WE RECOMMEND the City Council ensure complete and detailed capital asset records are maintained and annual physical inventories are conducted. The city should also properly tag, number, or otherwise identify all applicable city property.

AUDITEE'S RESPONSE

The City Council provided the following written response:

The City will adopt a policy to implement a capital asset inventory as recommended and will ensure that it is conducted annually with the first such inventory to be completed by March 1, 2011.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF RICHMOND
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The City of Richmond is located in Ray County. The city was incorporated in 1827 and is currently a third-class city. The population of the city in 2000 was 6,116.

The city government consists of a mayor and an eight-member city council. The members are elected for 2-year terms. The mayor is elected for a 4-year term, presides over the city council, and votes only in the case of a tie. The Mayor, City Council, and other officials during the year ended September 30, 2008, are identified below. The mayor is paid \$750 per month and the City Council members \$100 per month. Compensation amounts include car allowances. The \$45 car allowance for City Council members was eliminated October 1, 2009.

<u>Mayor and City Council</u>	<u>Dates of Service During the Year Ended September 30, 2008</u>
J. Lance Green, Mayor (1)	October 2007 - September 2008
Ed Swafford, Councilman	October 2007 - September 2008
Christopher Keen, Councilman (2)	April 2008 - June 2008
Scott Spiers, Councilman (2)	September 2008
Tom Williams, Councilman (3)	October 2007 - April 2008
Donald Fowler, Councilman	October 2007 - April 2008
David Powell, Councilman	April 2008 - September 2008
Beverly Gorham, Councilwoman (4)	October 2007 - September 2008
Thurza Falls, Councilwoman	October 2007 - April 2008
Ralph Bennett, Councilman (5)	April 2008 - September 2008
Melissa Miller, Councilwoman (6)	October 2007 - September 2008
Scott Marshall, Councilman (7)	October 2007 - September 2008
Mike Pearson, Councilman (8)	October 2007
Jason Berning, Councilman (8)	November 2007 - September 2008

- (1) Mike Wright was elected Mayor in April 2010.
- (2) Christopher Keen was removed from office June 2008 and the Council appointed Scott Spiers as his replacement in September 2008. Tom Williams was elected to this position for a 1-year term in April 2009.
- (3) Bob Bond was elected Councilman in April 2009.
- (4) Roger Keeple was elected Councilman in April 2009.
- (5) Ralph Bennet resigned in September 2008 and the Council appointed Tammy Folvarcik as his replacement. Jim Dunwoodie was elected Councilman in April 2009.
- (6) Mike Wright was elected Councilman in April 2009. Sam Coleman was elected Councilman in April 2010.
- (7) Terrie Stanley was elected Councilwoman in April 2009.
- (8) Mike Pearson resigned October 2007 and the Council appointed Jason Berning as his replacement. Jason Berning was elected to this position in April 2008. Marshia Lacey was elected Councilwoman in April 2010.

Other Officials	Dates of Service During the Year Ended September 30, 2008	Compensation Paid for the Year Ended September 30, 2008
Richard Childers, City Administrator (9)	October 2007 - September 2008	\$ 60,900
Robin Littrell, City Clerk (10)	October 2007 - September 2008	36,859
Marilyn O'Dell, City Collector	October 2007 - September 2008	37,931
Brian Hall, City Attorney (11)	October 2007 - September 2008	18,593
Theresa McWilliams, Police Chief	October 2007 - September 2008	50,003
Lonnie Quick, Fire Chief	October 2007 - September 2008	55,203
Thomas C. Fincham, Municipal Judge	October 2007 - September 2008	8,726
John Newberry, Municipal Prosecutor	October 2007 - September 2008	17,775
Melanie Allwood, Finance Director	October 2007 - September 2008	50,003
C.E. Goodall, Public Works	October 2007 - September 2008	35,928
Lisa Hastings, Community Development Director	October 2007 - September 2008	43,701
Robert Kinnard, Recreation Director (12)	October 2007 - July 2008	25,885

(9) Richard Childers resigned in May 2010 and Ed Swafford was hired as interim City Administrator June 1, 2010

(10) Robin Littrell resigned February 2010. Tonya Willim was hired as City Clerk June 1, 2010.

(11) Chris Williams was hired as the city attorney in October 2009.

(12) Robert Kinnard moved from the Recreation Department to the Fire Department as of August 2, 2008. Haley Morrissey was hired as Recreation Director in October 2008.

In addition to the officials identified above, the city employed 44 full-time employees and 14 part-time employees on September 30, 2008.