



Susan Montee, JD, CPA
Missouri State Auditor

City of Wyaconda



June 2010
Report No. 2010-67

auditor.mo.gov



Susan Montee, JD, CPA
Missouri State Auditor

YELLOW SHEET

Findings in the audit of the City of Wyaconda

Budgets, Audits, and Financial Reporting	<p>The annual budget prepared for the year ended December 31, 2010, does not contain a budget message, actual receipts and disbursements for the 2 preceding years, or beginning and ending cash balances, as required by state law. The budget only includes budgeted receipts and disbursements for 2010 and 2009, and actual receipts and disbursements for 2009. Actual disbursements exceeded budgeted disbursements for the General, Water and Sewer, and Street Funds for the year ended December 31, 2009. In addition, the city does not obtain annual audits of its sewer system as required by state law, and it did not submit an annual financial report to the State Auditor's office for the year ended December 31, 2008.</p>
Controls and Procedures	<p>Proper segregation of duties is not possible because the City Clerk is the only employee in the office; however, there is no independent or supervisory oversight of her work. In addition, the former City Clerk's daughter was employed as her mother's deputy, which prevented proper segregation of duties due to their close relationship.</p> <p>The city does not have a written bid policy and did not solicit bids for the clearing of brush from around the city lagoon costing \$15,930, nor did it retain bid documentation for the lease purchase of a \$14,050 tractor. Further, the Board of Aldermen approved and paid bonuses of \$200 to the City Clerk and \$25 to the contracted Wastewater Operator in December 2009. Also, there is no documentation of hours worked to support payments made to the former Deputy City Clerk from January 2009 to May 2009 and the rate of pay varied with no apparent justification for the variation. The city considered the Deputy Clerk a contracted employee and payroll taxes were not withheld, nor were the payments reported on an Internal Revenue Service W-2 Form.</p>
Meeting Minutes and Candidacy Ordinance	<p>Reasons for closing meetings and the corresponding vote to close the meeting are sometimes not documented and there were no minutes for the June 8, 2009, closed meeting. In addition, City Ordinance No. 342, passed by the Board of Aldermen in 2007, appears to be in violation of state law in that it requires citizens to "obtain ownership of residence for one full year prior to filing declaration of candidacy" and adds further restrictions beyond state law by requiring candidates to obtain city utility services and be registered voters of the city and county for one year prior to filing for office.</p>

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

City of Wyaconda

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory Report - State Auditor's Findings	1. Budgets, Audits, and Financial Reporting.....4 2. Controls and Procedures.....6 3. Meeting Minutes and Candidacy Ordinance8
---	--

Organization and Statistical Information	11
---	----



SUSAN MONTEE, JD, CPA
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Wyaconda, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Wyaconda. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2009. 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 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 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 Wyaconda.



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:	Susan J. Beeler, CPA, CIA
In-Charge Auditor:	Chris Vetter, CPA

City of Wyaconda

Management Advisory Report

State Auditor's Findings

1. Budgets, Audits, and Financial Reporting

State laws are not followed related to the annual budget, obtaining audits of the sewer system, and submitting annual financial reports to the State Auditor's office.

1.1 Budget preparation

While annual budgets are prepared and adopted, they do not contain all elements required by state law. The budget prepared for the year ended December 31, 2010, does not contain a budget message, actual receipts and disbursements for the 2 preceding years, or beginning and ending cash balances. The budget only includes budgeted receipts and disbursements for 2010 and 2009, and actual receipts and disbursements for 2009.

Section 67.010, RSMo, requires the preparation of an annual budget which shall represent a complete financial plan for the ensuing budget year and also sets specific guidelines for the format. A complete budget should include separate receipt and disbursement estimations by fund, and include the beginning available resources and a reasonable estimate of the ending available resources. The budget should also include a budget message and comparisons of actual receipts and disbursements for the 2 preceding years.

A complete and well planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific funding expectations for the city's operations, and a means to effectively monitor actual costs by periodically comparing budgeted to actual disbursements.

1.2 Budget overspending

Actual disbursements exceeded budgeted disbursements for the city's primary three funds for the year ended December 31, 2009 as follows:

Fund	Year Ended December 31, 2009		
	Budgeted Disbursements*	Actual Disbursements**	Amount Overspent
General Revenue	\$ 33,750	35,647	(1,897)
Water and Sewer	67,242	93,915	(26,673)
Street	6,100	10,103	(4,003)

* Amounts obtained from the 2010 budget documents

** Amounts obtained from the 2010 financial report submitted to the State Auditor's office

The majority of the overspending in the Water and Sewer Fund related to a \$15,930 payment to clean up the city's lagoon that was not anticipated at the time the budget was prepared. The Board of Aldermen receives monthly



City of Wyaconda
Management Advisory Report - State Auditor's Findings

reports detailing budget and actual disbursements; however, budget amendments are not prepared to prevent budget overspending.

Section 67.040, RSMo, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. Section 67.080, RSMo, provides that no expenditure of public monies shall be made unless it is authorized in the budget.

1.3 Audits

The city does not obtain annual audits of its sewer system. Section 250.150, RSMo, requires the city to obtain annual audits of the sewer system. In addition to being required by state law, annual audits of city funds help ensure city financial transactions are properly recorded.

1.4 Financial reporting

The city did not submit an annual financial report to the State Auditor's office for the year ended December 31, 2008. After discussion of this requirement during our current audit, the City Clerk timely filed the report for the year ended December 31, 2009. Section 105.145, RSMo, requires each political subdivision to file an annual report of its financial transactions with the State Auditor's office.

Recommendations

The Board of Aldermen:

- 1.1 Prepare annual budgets which contain all information required by state law.
- 1.2 Prepare budget amendments prior to incurring the related disbursements.
- 1.3 Obtain annual audits of the sewer system as required by state law.
- 1.4 Submit an annual financial report to the State Auditor's office as required by state law.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 1.1 *The City of Wyaconda's annual budgets starting with the 2010-11 will meet all the Missouri Revised Statutes criteria for a budget. City Clerk Samuelson stated that she followed the template of the former clerk's budget and now knows the guidelines and will follow them for next year.*
- 1.2 *This issue has been dealt with and any overspending will be addressed and the budget amended per resolution if needed in the future. The clerk was not aware of this law but will work at enforcing it in the future.*



City of Wyaconda
Management Advisory Report - State Auditor's Findings

- 1.3 *The City of Wyaconda is aware now of the fact that an audit of the sewer (Wastewater) finances is to be done annually. The City is looking into having a CPA audit done on a regular basis. The water and sewer fund budget was overspent by more than \$30,000 in 2009. The rates are in the process of being increased, but should have been done years ago, so the city has no extra money in this department to cover the cost of just a sewer financial audit.*
- 1.4 *This is already being implemented in the fact that a financial report for 2009 was mailed in and a confirmation of receipt of the report was returned. Due to this fact Clerk Samuelson asked the auditor's to change the wording in this section of the report which has been done. Clerk Samuelson is aware and plans to complete this report every year, but she cannot speak for what happened in 2008 since this time frame was during the time the former clerk was employed with the City of Wyaconda.*

2. Controls and Procedures

There is no documented oversight of accounting duties, no formal bidding procedures exist, and bonuses were paid to city employees. In addition, no documentation exists to support payments to a contracted employee.

2.1 Segregation of duties

Proper segregation of duties is not possible because the City Clerk is the only employee in the office; however, there is no independent or supervisory oversight of her work. In addition, the former City Clerk's daughter was employed as her mother's deputy, which prevented proper segregation of duties due to their close relationship. The city has a conflict of interest ordinance; however, it does not discuss supervision of relatives.

To safeguard against the possible loss or misuse of funds, internal controls should provide reasonable assurance all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by having someone independent of the City Clerk document a review of the city's accounting records. Further, the city should consider adopting a related party policy in addition to its conflict of interest policy to address how to handle issues such as supervision of relatives and nepotism.

2.2 Bidding policy and procedures

The city does not have a written bid policy. In addition, the city did not solicit bids for the clearing of brush from around the city lagoon costing \$15,930, and the city did not retain bid documentation for the lease purchase of a \$14,050 tractor.

Formal bidding procedures for major purchases provide a framework for economical management of the city's resources and help ensure the city receives a fair value by contracting with the lowest or best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the city's business. In addition, written



City of Wyaconda
Management Advisory Report - State Auditor's Findings

documentation of bids should be maintained, including a list of vendors contacted, a copy of the bid specification, copies of all bids received, justification for awarding the bid, and documentation of discussions with vendors.

2.3 Bonuses

The Board of Aldermen approved and paid bonuses to the City Clerk and contracted Wastewater Operator in December 2009. The City Clerk received a \$150 performance bonus and a \$50 Christmas bonus and the Wastewater Operator received a \$25 Christmas bonus, which was not specified in his contract.

The bonuses appear to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39, Missouri Constitution, and Attorney General's Opinion No. 72, 1955 to Pray, which states, ". . . a government agency deriving its power and authority from the constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

2.4 Deputy City Clerk

There is no documentation of hours worked to support payments made to the former Deputy City Clerk from January 2009 to May 2009 and the rate of pay varied from \$40.50 per day to \$52.50 per day with no apparent justification for the variation. In addition, the city considered the Deputy City Clerk a contracted employee. Payroll taxes were not withheld, nor were the payments reported on an Internal Revenue Service (IRS) W-2 Form. The Deputy City Clerk was paid \$324 in 2009.

Without obtaining and properly reviewing adequate documentation from vendors and employees, the Board cannot determine the validity and propriety of disbursements. Additionally, Section 105.300, RSMo, defines an appointive officer or employee of a political subdivision as an employee for Social Security and Medicare tax purposes. For employees, the IRS requires employers to report compensation on W-2 forms and withhold and remit federal income taxes. Similarly, Chapter 143, RSMo, includes requirements for reporting wages and withholding state income taxes. State and federal laws require employers to pay the employer's share of Social Security and Medicare on the compensation paid to employees.

Recommendations

The Board of Aldermen:

- 2.1 Ensure there is a documented review of city accounting records by someone independent of the City Clerk. Any unusual items or discrepancies should be investigated. In addition, a written related party policy should be adopted.



City of Wyaconda
Management Advisory Report - State Auditor's Findings

- 2.2 Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected.
- 2.3 Discontinue granting bonuses to employees.
- 2.4 Maintain adequate supporting documentation for all wages paid. In addition, the Board should ensure all compensation paid to employees is subject to payroll taxes and properly reported on W-2 forms.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 2.1 *The Mayor or an assigned Alderman will be double checking financial reports and comparing them to the monthly bank statements. This individual will initial all bank statements after this procedure is implemented. The clerk will work with the assigned individual to efficiently investigate any discrepancies, if any. A policy on hiring related individuals will be looked into by the council.*
- 2.2 *The city council is looking into a bid policy for the City of Wyaconda. All bid documentations will be kept and has been implemented already.*
- 2.3 *This way of practice will be discontinued and considered in reference to future city business. The City Clerk and the Aldermen were not aware that this practice was not legal.*
- 2.4 *Clerk Samuelson states that these incidents happened before she was hired and most of the council was elected to office so no one has any first-hand knowledge of this incident. Clerk Samuelson stated that all employee payroll is being handled correctly and that all taxes are being taken out correctly of ALL city employee payroll. To date all contract employees for the City of Wyaconda have a contract on file.*

3. Meeting Minutes and Candidacy Ordinance

Improvements are needed in documenting closed Board of Aldermen meetings and an ordinance requiring elected officials to own property in the city does not appear to be allowable by state law.

3.1 Closed meetings

Reasons for closing meetings and the corresponding vote to close the meeting are sometimes not documented. The Board held numerous closed meetings in 2009. Open meeting minutes typically indicate the meeting is



City of Wyaconda
Management Advisory Report - State Auditor's Findings

going into closed session, but the specific reason and the vote to close the meeting are not always documented. In addition, there were no minutes for the June 8, 2009, closed meeting.

The Sunshine Law, Chapter 610, RSMo, requires the question of holding the closed meeting and the reason for the closed meeting be voted on at an open meeting. In addition, the Sunshine Law requires minutes be taken of all closed meetings. The minutes should provide sufficient details of discussions to demonstrate compliance with statutory provisions and support important decisions.

3.2 Candidacy ordinance

City Ordinance No. 342, passed by the Board of Aldermen in 2007, appears to be in violation of state law in that it requires citizens to "obtain ownership of residence for one full year prior to filing declaration of candidacy." This appears to contradict Section 71.150, RSMo, which states "no property qualifications shall be required to render any person eligible to any office in any city or incorporated town."

In addition, the city ordinance in question adds further restrictions beyond state law by requiring candidates to obtain city utility services and be registered voters of the city and county for one year prior to filing for office. Sections 79.070 and 79.080, RSMo, establish requirements for elected positions in fourth-class cities, including age, citizenship, and residency requirements. To ensure citizens' rights to run for office are not infringed, the Board should consult with legal counsel to determine the legality of the requirements in this ordinance.

Recommendations

The Board of Aldermen:

- 3.1 Ensure meeting minutes document the vote to go into closed meetings and state the reasons for going into closed meetings. In addition, minutes should be prepared and maintained for all closed meetings.
- 3.2 Consult with legal counsel regarding this ordinance and take appropriate action to ensure it is in compliance with state law.

Auditee's Response

The Board of Aldermen provided the following written responses:

- 3.1 *Clerk Samuelson states that all meeting minutes have been done since she was hired, whether it was a closed or open meeting. From this time forward any closed session meetings will comply with the Mo. Sunshine Law including documenting the opening and closing and public notice will be given of why the meeting is closed and any vote taken. This action is already being implemented.*



City of Wyaconda
Management Advisory Report - State Auditor's Findings

3.2 *This ordinance will be revamped and our attorney will be involved with its completion. We will make the ordinance legal in compliance with Mo. Revised Statute 79.070 and 79.080.*

City of Wyaconda

Organization and Statistical Information

The City of Wyaconda is located in Clark County. The city was incorporated in 1899 and is currently a fourth-class city.

Mayor and Board of Aldermen

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended December 31, 2009, are identified below. The Mayor and Board of Aldermen members are paid \$25 and \$15, respectively, per meeting attended. The compensation of these officials is established by ordinance.

Name and Title	Dates of Service During the Year Ended December 31, 2009
Chad Yocum, Mayor	January - December
James Shaffer, Alderman	January - December
Kathy Calvert, Alderwoman (1)	April - December
Gene Knupp, Alderman	January - March
Jim Hooper, Alderman (2)	January - December
Tracey Russell, Alderman	April - December
Helen Graham, Alderwoman	January - March

- (1) Kathy Calvert resigned from this position in January 2010. Bob Robertson was appointed by the Board of Aldermen in February 2010 to fill the remainder of the term. Wes Knupp was elected Alderman in April 2010.
- (2) James Knisley was elected Alderman in April 2010.

Other Officials

Name and Title	Dates of Service During the Year Ended December 31, 2009	Compensation Paid for the Year Ended December 31, 2009
Michele Samuelson, City Clerk	June - December	\$ 4,450
Gayle Randle, City Clerk	January - May	6,302
Evelyn Randle, Deputy City Clerk	January - May	324
Wallace Trosen, City Attorney	July - December	216
David Peppard, City Attorney	January - June	298
James Alderton, Water Superintendent (1)	January - May	10,757

- (1) James Alderton resigned in May 2009. The city contracted a portion of this work to Brad Eitel, who is paid \$300 per month, with a title of contracted Wastewater Operator.

A summary of the city's financial activity for the year ended December 31, 2009, is presented below:



City of Wyaconda
Organization and Statistical Information

Year End December 31, 2009

RECEIPTS	General Fund	Water and Sewer Fund	Street Fund	Block Grant Fund	Total
Property tax	\$ 9,257	0	0	0	9,257
Sales tax	14,135	228	0	0	14,363
Franchise tax	6,873	0	0	0	6,873
Motor fuel and vehicle fees	0	0	11,493	0	11,493
Trash, licenses, and fees	240	9,718	0	0	9,958
Water and sewer fees	0	73,027	0	0	73,027
DNR grant	0	0	0	207,498	207,498
Interest	2,813	6,778	0	0	9,591
Miscellaneous	4,956	3,753	0	0	8,709
Transfers in	0	10,715	0	0	10,715
Total Receipts	38,274	104,219	11,493	207,498	361,484
DISBURSEMENTS					
Wages and payroll taxes	14,159	17,017	2,001	0	33,177
Insurance	2,250	2,960	942	0	6,152
Operations	6,800	44,876	5,480	0	57,156
Water purchases	0	22,000	0	0	22,000
Legal	600	6,888	0	0	7,488
Utilities	6,008	2,750	0	0	8,758
Debt service	0	9,691	0	0	9,691
DNR grant	0	0	0	207,498	207,498
Miscellaneous	5,830	3,683	1,681	0	11,194
Transfers out	10,715	0	0	0	10,715
Total Disbursements	46,362	109,865	10,104	207,498	373,829
RECEIPTS OVER (UNDER) DISBURSEMENTS	(8,088)	(5,646)	1,389	0	(12,345)
CASH, JANUARY 1, 2009	50,471	217,045	1,636	0	269,152
CASH, DECEMBER 31, 2009	\$ 42,383	211,399	3,025	0	256,807