



**CITY OF WOOD HEIGHTS, MISSOURI  
YEAR ENDED JUNE 30, 2000**

**From The Office Of State Auditor  
Claire McCaskill**

**Report No. 2001-46  
June 7, 2001  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)**

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

June 2001

[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

**The following problems were discovered as a result of an audit conducted by our office of the City of Wood Heights, Missouri.**

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Inadequate oversight and monitoring by the Board of Aldermen, inadequate records and procedures, and improper uses of restricted monies have all contributed to a serious financial situation for the city.

On January 31, 2001, the city had a deficit of \$112,000 in its operating funds. The city had \$22,621 in the general bank account and \$35,677 in unpaid bills. The city owes \$4,069 to the U.S. Department of Justice for excess grant reimbursements and owes approximately \$78,000 in debt service property taxes to the city's debt service fund, and the city should be holding approximately \$10,000 in refundable water and trash deposits on behalf of its customers. In addition, the city needs to incur approximately \$7,000 in net expenses to finish some flood damage projects.

For the year ended June 30, 2000, the city combined all of its operating revenues and expenditures into one fund. Revenues for water, sewer, and trash fees are restricted for providing the related services. The city may be using some of these restricted revenues to pay for general city operating expenses.

The city prepares annual budgets. However, the budgets have not projected the estimated balances of the city's general and operating funds, and the Board of Aldermen has not periodically compared budgeted and actual revenues and expenditures.

The city has not completed some FEMA projects to repair 1997 flood damage to the city. It appears the city made more repairs and spent more money than required on some of the projects that have been completed. The city needs to complete the projects by November 2001 at an estimated cost of \$19,000 and obtain an additional \$12,000 in state funding available to them upon completion of the projects.

The city has levied and collected excessive amounts of debt service property taxes, and the city has spent approximately \$78,000 in debt service taxes on city operations. State law requires debt service taxes be used only to pay principal and interest on general obligation bonds, and the city needs to transfer \$78,000 from the general operating fund to the debt service fund.

(over)

YELLOW SHEET

The city has not adequately documented its water, sewer, and trash rates to ensure these user fees are established to cover the costs of providing these services. In March 2000, the board voted to lower water rates based on an analysis that indicated revenues exceeded expenditures. However, the analysis apparently did not include depreciation and replacement expenses, and indicated that two water pumps needed to be replaced at a cost of \$35,000. Additionally, because the city does not track fund balances, it is unknown if there was a positive balance in the water fund at the time that the analysis was completed. The city has apparently not reviewed the adequacy of sewer and trash rates for several years.

During the time period April 1998 through January 2001, the mayor received at least \$5,936 from the city for mileage, meals, and equipment reimbursements, and compensation in addition to his official compensation. In addition, the mayor's wife and son received a total of \$425 for services provided, and a company owned by the mayor received \$4,602 for services provided. Supporting documentation could not be located for several of these payments, and bids for services provided by the mayor's business could not be located. The Board of Aldermen needs to ensure that it documents its approval prior to making payments to related parties, and that adequate documentation of all expense reimbursements is obtained. In addition, the board should review the payments to ensure they represent legitimate city expenditures and determine if any amounts should be reimbursed to the city.

During the year ended June 30, 2000, city employees purchased items for personal use with city monies. These items cost approximately \$860 and included chairs, paper products, printer stand, tool chest, and various office products. These expenditures were reimbursed to the city through payroll deductions over several weeks, resulting in the city providing its employees with interest-free loans on the personal purchases. In addition, some of the invoices for these purchases did not include sales tax. State law requires sales taxes to be paid on personal purchases. The city should discontinue the practice of allowing employees to purchase personal items with city funds.

Vendor invoices or other supporting documentation were not retained for some expenditures. Some of these expenditures included \$25,000 for street repair, \$3,200 for water system maintenance, \$1,715 for the purchase of radar equipment, \$1,548 for repairs to the city's backhoe, \$700 for repairing water leaks, and \$500 for the purchase of police uniforms and supplies. Documentation for the majority of these expenditures has subsequently been located by the city. All expenditures should be supported by paid receipts or vendor invoices to ensure the obligation was actually incurred and the expenditures represent appropriate uses of public funds.

CITY OF WOOD HEIGHTS, MISSOURI

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**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
City of Wood Heights  
Wood Heights, Missouri 64024

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Wood Heights, Missouri. Our audit of the city included, but was not limited to, the year ended June 30, 2000. The objectives of this audit were to:

1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in the audit of the city.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the City of Wood Heights, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill  
State Auditor

April 13, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	Mark Ruether, CPA
In-Charge Auditor:	Susan Beeler
Audit Staff:	Tiffany Blew

## HISTORY AND ORGANIZATION

CITY OF WOOD HEIGHTS, MISSOURI  
HISTORY AND ORGANIZATION

The City of Wood Heights was incorporated in 1959 and is currently a fourth-class city. The city is located in western Ray County. The population in 1990 was 708. The city government consists of a mayor and a four-member board of aldermen. The four board members are elected for two-year terms, one from each of the two wards each year. The mayor is elected for four years, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officers at June 30, 2000, were:

Elected Officials	Term Expires	Compensation Paid For the Year Ended June 30, 2000	Amount of Bond
Autry Williams, Mayor	April 2002	\$ 564	\$ 15,000
Hiram Jones, Alderman (1)	April 2001	0	15,000
Ruth Pettegrew, Alderwoman (2)	April 2001	138	15,000
Myron Jones, Alderman	April 2002	138	15,000
David Wright, Alderman	April 2002	125	15,000

Other Principal Officials

Vacant, City Administrator (3)	N/A	15,000
Ann Roach, Court Clerk	11,166	15,000
P. Brian LaFavor, Police Chief (4)	26,068	15,000
Thomas McGiffin, City Attorney/Prosecutor (5)	6,811	0
Sandra Ferguson, Municipal Judge	2,400	0

(1) Gene Lavine resigned in September 1999, and Curtis Magruder was appointed to fill the position until the next election. Hiram Jones was elected in April 2000 to fill the unexpired term and was re-elected in April 2001.

(2) Melvin Carmichael was elected in April 2001.

(3) Lisa Vassar resigned in June 2000, and a new City Administrator was not hired. In October 2000, Eileen McRory was hired as City Clerk.

(4) P. Brian LaFavor resigned in January 2001, and Jacqueline Springer was appointed acting Police Chief.

(5) Thomas McGiffin resigned in January 2001. Michael Gunn was appointed City Attorney and Kurt Eylar was appointed City Prosecutor in January 2001.

The city also employs approximately 3 full-time and 9 part-time employees. In March 2001, the city laid-off all employees except for the city clerk, a part-time accounting clerk, and a part time maintenance worker.



Assessed valuation and tax rate information for tax years 2000 and 1999 are as follows:

ASSESSED VALUATION	<u>2000</u>	<u>1999</u>
Real estate	\$ 4,075,000	3,609,850
Personal property	<u>1,364,266</u>	<u>1,731,371</u>
Total	<u>\$ 5,439,266</u>	<u>5,341,221</u>

  

TAX RATES PER \$100 ASSESSED VALUATION		
General	\$ 0.39	0.39
Debt service	1.48	1.16

The city has a general sales tax of one percent of retail sales within the city.

A summary of the financial activity of the city of Wood Heights for the past few years is presented on the next page.

	Year Ended June 30,				July 1, 2000,
	1997	1998	1999	2000	to January 31, 2001
<b>RECEIPTS:</b>					
Property taxes	\$ 16,891	16,361	19,857	21,596	21,407
Debt service property taxes	52,686	53,864	45,113	60,526	68,945
Motor fuel and motor vehicle fees	25,382	27,606	28,399	29,096	17,487
Water/sewer/trash	160,847	180,486	177,256	180,220	103,992
COPS grant	0	16,782	10,293	32,294	30,638
FEMA grant	0	0	120,797	0	0
Utility franchise fees	21,483	21,984	23,656	22,180	18,099
Sales and use tax	16,694	21,483	20,199	30,236	16,596
Fines and court costs	75,935	67,257	41,526	56,697	22,640
Interest and other	45,174	14,083	7,533	19,285	12,093
Total Receipts	415,092	419,906	494,629	452,130	311,897
<b>DISBURSEMENTS:</b>					
General	127,234	150,320	123,163	139,866	107,449
Water	82,758	99,278	152,700	87,351	52,509
Sewer	46,360	56,021	48,174	31,595	11,399
Trash	21,888	21,666	22,272	23,832	7,424
Police	71,178	66,583	64,173	108,891	62,427
Streets	9,217	4,358	25,951	57,891	1,000
Bond principal and interest	37,701	32,890	32,310	32,086	10,765
FEMA projects	0	0	83,008	30,613	7,699
Total Disbursements	396,336	431,116	551,751	512,125	260,672
Receipts Over (Under) Disbursements	18,756	(11,210)	(57,122)	(59,995)	51,225
Cash Balance, Beginning of Period	140,386	159,142	147,932	90,810	30,815
Cash Balance, End of Period	\$ 159,142	147,932	90,810	30,815	82,040

MANAGEMENT ADVISORY REPORT

CITY OF WOOD HEIGHTS, MISSOURI  
SUMMARY OF FINDINGS

1. Financial Condition (pages 10-11)

Due to lack of financial oversight and monitoring, inadequate records and procedures, and improper use of restricted monies, the city is in very poor financial condition. Expenditures have exceeded revenues for the past three completed fiscal years, and at January 31, 2001, the city had a deficit balance of approximately \$112,000 in its operating funds.

2. Federal Emergency Management Act (FEMA) Projects (pages 11-12)

The city has not completed some FEMA projects to repair 1997 flood damage to the city. It appears the city made more repairs and spent more money than required on some of the projects that have been completed. The city needs to complete the projects by November 2001 at an estimated cost of \$19,000 and obtain an additional \$12,000 in state funding available to them upon completion of the projects.

3. Debt Service Fund (pages 12-13)

Over the past four years, the city spent approximately \$78,000 of debt service property tax receipts on general city operations. In addition, the city has set its debt service levy higher than allowed by law and collected more debt service property taxes than needed.

4. Community Oriented Policing Services (COPS) Grant (pages 13-14)

The city has received \$103,439 in COPS grant reimbursements since 1996. Documentation of the amounts claimed for reimbursement was not retained as required by the grant, and \$4,069 was reimbursed to the city in excess of that allowed.

5. Related-Party Transactions (pages 14-16)

From April 1998 to January 2001, the city paid the mayor \$5,936, the mayor's wife and son \$425, and a business owned by the mayor \$4,602 in expense reimbursements, additional compensation, and for services provided. The Board of Aldermen needs to ensure that it documents its approval prior to making these payments, and that adequate documentation of all expense reimbursements is obtained. In addition, bids should be obtained for services provided by businesses owned by city officials, as required by state law, and city officials should not be paid compensation in addition to the official compensation allowed.

6. Utility Funds (pages 16-18)

The city does not maintain separate funds to account for water, sewer, and trash receipts and expenditures. The city should perform an analysis of the costs of providing these services and ensure rates are set to cover all operating costs. The city should determine

whether it must continue to maintain the sewer depreciation and replacement fund. The city needs to maintain records of water and trash deposits held for its customers.

7. Expenditure Procedures (pages 18-20)

Forms 1099-MISC are not filed as required. Vendor invoices or other supporting documentation were not always retained. Reimbursements made to employees and officials were not always supported by adequate documentation. The city does not have a formal bidding policy.

8. Receipt Procedures (pages 20-21)

Pre-numbered receipt slips are not issued for some monies received by the city. Checks and money orders are not restively endorsed immediately upon receipt and the method of payment received is not always recorded.

9. Petty Cash Procedures (pages 21-22)

Payments from the petty cash fund are not always supported by invoices. Daily collections of property tax receipts and utility receipts were used to replenish the petty cash fund.

10. Personnel Related Issues (pages 22-23)

The city paid for some personal items for employees and made payroll deductions to reimburse the city. In 1999 and 2000, performance awards and gift certificates totaling \$1,100 were given to city employees. The city does not withhold payroll taxes and issue W-2 forms for compensation paid to city officials.

11. Budgets, Ordinances, and Financial Reporting (pages 23-25)

The city's budgets did not include some information required by state law, and budget amendments were not prepared when needed. The published financial statements do not include the city's indebtedness and should provide a more detailed account of city receipts and expenditures. The city's ordinance book is not complete. The city has not obtained annual audits of its combined waterworks and sewage system as required by state law.

12. General Fixed Asset Records and Procedures (pages 26-27)

The city does not maintain records to account for city-owned property and does not keep usage and maintenance logs for city-owned vehicles and equipment.

CITY OF WOOD HEIGHTS, MISSOURI  
MANAGEMENT ADVISORY REPORT

<b>1.</b>	<b>Financial Condition</b>
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Inadequate oversight and monitoring by the Board of Aldermen, inadequate records and procedures, and improper uses of restricted monies have all contributed to a serious financial situation for the city.

At January 31, 2001, the city had a deficit of approximately \$112,000 in its operating funds. The city had \$22,621 in the general bank account and \$35,677 in unpaid bills. The city owes \$4,069 to the U.S. Department of Justice for excess grant reimbursements, owes approximately \$78,000 in debt service property taxes to the city's debt service fund, and should be holding approximately \$10,000 in water and trash deposits for its customers. In addition, the city needs to incur approximately \$7,000 in net expenses to finish some flood damage projects.

For the year ended June 30, 2000, the city combined all of its general and operating revenues and expenditures into one fund. Revenues for water, sewer, and trash fees are restricted for providing the related services. The city may be using some of these restricted revenues to pay for general city operating expenses.

The city prepares annual budgets. However, the budgets have not projected the estimated balance of the city's general and operating funds, and the Board of Aldermen has not periodically compared budgeted and actual revenues and expenditures. In addition, the monthly financial reports prepared for the board's review have not been accurate and do not include some checks issued.

The general and operating expenditures of the city have increased significantly over the past few years and increases in revenues have not kept up with the increases in expenditures as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Revenues Over</u> <u>(Under) Expenditures</u>
1997	\$ 415,092	396,336	18,756
1998	419,906	431,116	(11,210)
1999	494,629	551,751	(57,122)
2000	452,130	512,125	(59,995)

The city has hired an attorney to work with the Board of Aldermen and other city officials to reduce the city's deficit balance. In March 2001, the city laid off all of its compensated police officers and some other city employees, and suspended the operation of its municipal court. While this action will not totally eliminate the operating deficit by the end of the current fiscal year, this action will significantly improve the financial

condition of the city. The board must continue to monitor the financial condition of the city and develop a long-range plan which will allow the city to reduce its expenditures and/or increase its revenues to operate the city with available resources. Additionally, the board needs to segregate the water, sewer, and trash funds and ensure that these revenues are only used to pay expenditures for providing these services. The recommendations contained in the remaining MARs, if implemented, will help the city establish procedures to operate within its available resources.

**WE RECOMMEND** the Board of Aldermen continue to work to develop a long-term plan to operate within its available resources. In addition, the board must closely monitor the financial condition of the city by preparing detailed operating budgets which project the anticipated balance of each city fund and by periodically comparing budgeted and actual revenues and expenditures.

### **AUDITEE'S RESPONSE**

*With the assistance of the city attorney, we are developing a long-term plan to operate within the city's available resources and we plan to work toward paying off the deficit as timely as possible. Our long-term plan will be completed as soon as possible. We are currently working on next fiscal year's budget and plan to have it completed by July 1, 2001. We have been receiving monthly financial statements from the city clerk to better monitor the city's financial condition, and we have already started separate accounting for the various city funds. A city treasurer has been appointed to assist in this area.*

<b>2. Federal Emergency Management Act (FEMA) Projects</b>
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During the year ended June 30, 1999, the city received a total of \$120,797 in Federal Emergency Management Act (FEMA) grant monies for 24 projects to repair flood damage which occurred during 1997. The federal grant award represents 75 percent of the total estimated project costs. When all the projects are completed, the city will receive 10 percent of the original estimated project costs in matching state funds. The city is responsible for providing funding for the remaining project costs. As of March 1, 2001, fourteen projects are completed, four are mostly complete, and six have not been started.

The State Emergency Management Agency (SEMA) oversees the FEMA grants. In September 2000, the SEMA performed a site inspection of the projects and noted that many of the project files were missing sufficient documentation to support the project costs claimed by the city. Most of this documentation has subsequently been located. SEMA also noted that two of the projects had been completed with 24-inch pipe instead of the required 30-inch pipe. Therefore, SEMA reduced the grant award by a total of \$3,150 (\$1,575 for each project).

In February 1999, the city opened a separate bank account for the payment of FEMA project expenditures. At January 31, 2001, the FEMA bank account had a balance of

only \$875, which will not cover the cost to complete the 10 unfinished projects. SEMA officials indicated that the city performed more repair work than required on some of the finished projects. For example, the city elected to chip and seal some parts of damaged roads instead of just filling potholes. Therefore, it appears the city spent more money than required on some projects and the city has no grant money left to complete the unfinished projects.

If the city does not complete the 10 unfinished projects, the city will need to reimburse SEMA \$27,214 for the unfinished projects and for using the incorrect pipe size for the two projects described above. If the city completes the projects, the city will be eligible for \$12,093 in net state matching funds (which includes the \$3,150 reduction for using the wrong sized pipe). SEMA has currently set a deadline of November 1, 2001, to complete the unfinished projects. The city is working on a project completion plan which will be submitted to SEMA. While the city has not yet finished this plan, the city plans to use its own employees to complete some of the projects, which apparently will save money compared to paying a contractor to complete all the unfinished projects. Although there is disagreement between some board members regarding the estimated costs to finish the projects, estimates prepared by the City Clerk indicate the city will incur approximately \$19,000 in additional expenses to finish these projects. If the city completes the projects and receives the state matching funds, it appears the city will incur \$7,000 in net additional expenses.

**WE RECOMMEND** the Board of Aldermen work with the SEMA to complete the projects and obtain the state matching funds. In addition, the board should ensure invoices or other documentation are located or obtained to support all FEMA project expenditures.

### **AUDITEE'S RESPONSE**

*There is a difference of opinion among the aldermen as to how much additional expense is needed to complete the projects. However, we intend to finish all FEMA projects and include these expenses in the budget for the year ended June 30, 2002. Most of the invoices for project expenses have now been located and we will try to locate or obtain the remaining invoices.*

<b>3. Debt Service Fund</b>
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The city levies a property tax to pay the principal and interest on its general obligation bonds. The city issued \$110,000 in general obligation bonds for constructing a sewer system in 1982 which were paid off in 1997. In 1995 and 1996, the city issued \$385,000 in general obligation bonds for water system improvements which will be paid off in 2016.

The city has spent debt service tax revenues on general city operations, and as a result, \$78,000 is due from the general fund to the debt service fund. The balance of the debt service fund at January 31, 2001, was \$57,008; however, based on estimated collections



and debt service principal and interest payments, the debt service fund should have a balance of approximately \$135,000. State law requires debt service taxes be used only to pay bond principal, interest, and related fees.

In addition, the city has significantly over-calculated its required debt service tax levy for the past four years, as follows:

	<u>Tax Rate</u>	<u>Estimated Collections</u>	<u>Debt Payments</u>	<u>Excess Taxes Levied</u>
1997	\$ 1.10	\$ 53,765	\$ 32,600	\$ 21,165
1998	0.96	45,113	32,020	13,093
1999	1.16	55,762	31,440	24,322
2000	1.48	72,519	35,715	36,804

The city’s property tax calculations underestimated the balance which should have been in the debt service fund each year. This increased the city’s estimate of taxes needed to pay current debt obligations plus a reasonable reserve, as allowed by state law.

The city deposits all property taxes into the general fund, but prior to the collection of 2000 taxes, the city did not transfer some debt service tax collections to the debt service fund. In addition, the city has not transferred any debt service taxes collected by the county on utility property into the debt service fund. State law requires debt service taxes be deposited into a separate fund. The city should continue to deposit all debt service taxes into and make all bond principal, interest, and fee payments from the debt service fund.

**WE RECOMMEND** the Board of Aldermen transfer \$78,000 from the general fund to the debt service fund, and ensure future debt service tax levies are calculated in accordance with state law. In addition, the board should ensure that all debt service related revenues and expenditures are accounted for in the debt service fund.

**AUDITEE’S RESPONSE**

*The city does not currently have funds available to make the recommended transfer. With the assistance of the city attorney, we will consider all applicable legal considerations and take appropriate action. Currently, all debt service revenues and expenses are accounted for in the debt service fund and this will continue.*

**4. Community Oriented Policing Services (COPS) Grant**

In 1996, the city began receiving federal assistance from the U.S. Department of Justice under the COPS Universal Hiring program to hire additional law enforcement officers. Prior to receiving the grant, the city employed a police chief and various reserve officers. The original grant provided for one additional full-time officer and one additional part-

time officer over a three-year period. An extension was given on this grant until May 2001. In 2000, the city entered into another three-year COPS grant to receive assistance for three additional officers (one full-time and two part-time).

Our review of these grants noted the following concerns:

- A. The city is required to prepare quarterly reports of eligible grant expenditures. The city does not maintain adequate documentation to support the amounts presented on the quarterly reports. The city only maintains a listing of percentages to calculate eligible medical insurance, unemployment insurance, workers' compensation insurance, and retirement costs. There is no documentation of the individual officers' salaries which make up the total amount of salary expense claimed against the grant.

Based on our review of police salaries paid by the city, it appears the city has claimed reimbursement for salary expenses for only eligible officers. However, documentation to support the salaries claimed for reimbursement is required by the grant agreement and is necessary to ensure the propriety of all reimbursement claims.

- B. The city is required to provide 25 percent matching funds for this grant. For the quarter ended September 30, 2000, the city was reimbursed for 100 percent of the total costs claimed for the quarter, which was \$4,069 more than entitled. City officials indicated the grant reimbursement requests are made by phone upon completion of the quarterly financial status report. The applicable financial status report appeared accurate; therefore, it appears the city telephoned an incorrect reimbursement amount.

The city has received a total of \$103,439 in COPS grant reimbursements. Because of the poor financial condition of the city, all of the city's police officers were laid off in March 2001 and the city no longer is participating in the COPS Grant Program.

**WE RECOMMEND** the Board of Aldermen prepare adequate documentation to support all grant reimbursement claims and repay the \$4,069 in excess reimbursements received for the quarter ended September 30, 2000.

### **AUDITEE'S RESPONSE**

*We plan to fully disclose these matters immediately and take whatever action is required by the Department of Justice.*

<b>5. Related-Party Transactions</b>
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During the time period April 1998 through January 2001, the mayor received at least \$5,936 from the city for mileage, meals, and equipment reimbursements, and

compensation in addition to his official compensation. In addition, the mayor's wife and son were paid a total of \$425 for services provided, and a company owned by the mayor received \$4,602 for services provided. We noted the following concerns with these payments:

- A. The city paid a company owned by the mayor to do miscellaneous work for the city (such as debris cleanup, extermination of city hall, etc.) totaling \$4,602. Of this amount, \$2,882 was paid during the year ended June 30, 1999, and \$1,645 was paid during the year ended June 30, 2000. While the mayor indicated that bids were solicited for the \$2,882 expenditures, no bidding documentation could be located.

Section 105.458.2, RSMo 2000, states "No sole proprietorship, partnership, joint venture, or corporation...in which any member of any political subdivision...is the partner...or owner...shall: (1) Perform any service for the political subdivision or any agency of the political subdivision for any consideration in excess of five hundred dollars per transaction or one thousand five hundred dollars per annum unless the transaction is made pursuant to an award on a contract let after public notice and competitive bidding, provided that the bid or offer accepted is the lowest received." The city should obtain bids and retain bid documentation for all purchases, exceeding \$500 per transaction and \$1,500 annually, from businesses owned by city officials in order to ensure and adequately document compliance with this statute.

- B. In September 1998, the city paid the mayor \$40 for mowing the city water tower lot. Additionally, in March 2000, the city paid \$250 to the mayor for passing out city newsletters. Section 105.458.1, RSMo 2000, states: "no member of any legislative or governing body of any political subdivision of the state shall: (1) Perform any service for such political subdivision or any agency of the political subdivision for any consideration other than the compensation provided for the performance of his official duties."
- C. In October 1998, the city purchased a lawn mower from the mayor for \$400. Although the city indicated that this expenditure was informally discussed by the Board of Aldermen, there is no documentation in the board meeting minutes of this expenditure being approved prior to purchase.
- D. During the year ended June 30, 2000, the city paid the mayor's wife \$200 for passing out city flyers. Additionally, the city paid a lawn mowing service owned by the mayor's wife and son a total of \$225 for mowing the city hall lot. These expenditures were not approved by the board prior to incurring the costs.
- E. During the fiscal year ended June 30, 2000, there were at least 28 instances in which the mayor received reimbursement through petty cash or expense checks for meals that included at least one guest. The total cost of these meals totaled \$722. Additionally, some expense reports could not be located. The expense

reports that were located did not indicate the business purpose of the meals. Additionally, the city does not have a formal policy regarding city funds being used to pay for meals of non-city employees. The city should develop a formal policy regarding this issue, including when such reimbursements are allowed and the business purpose of each meal that includes a guest.

Transactions between the city and city officials and parties related to city officials represent potential conflicts of interest. Therefore, the city should ensure there is adequate documentation to support all related party transactions, bids are obtained for all applicable transactions, and board approval is documented prior to paying any related party transaction. The board should review all transactions between the city and the mayor and the mayor's relatives and determine if any amounts should be reimbursed to the city.

**WE RECOMMEND** the Board of Aldermen ensure adequate supporting documentation is maintained for all related party transactions. Bids should be obtained for all applicable related party transactions, and board approval should be maintained prior to the payment of all related-party transactions. The board should review all payments made to the mayor and his relatives to ensure all payments represented legitimate city expenditures and determine if any amounts should be reimbursed to the city.

In addition, the board should adopt a policy regarding the payment of meal expenses for guests and ensure these expenses are for legitimate city purposes.

### **AUDITEE'S RESPONSE**

*We will start an immediate review of the propriety of these transactions and take appropriate action. We will closely monitor future related-party transactions and develop a formal policy regarding travel and meal reimbursements.*

<b>6. Utility Funds</b>
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A. The city does not maintain separate funds to account for its water, sewer, and trash revenues and expenditures. During the year ended June 30, 2000, all city revenues, including water and sewer revenues previously accounted for separately, were deposited into one savings account. Because of this process, revenues restricted for water, sewer, and trash services may have been used to pay for general operating expenses. The city has not maintained adequate records to track the expenditure of these restricted revenues.

To ensure user fee revenues for water, sewer, and trash are used only for providing these related services, the city should maintain separate funds or separate accounting of water, sewer, and trash revenues and expenditures. These revenues should be used only for the allowable purposes, and the unspent balance of these revenues should be accounted for separately along with future receipts.

- B. The city has not adequately documented its water, sewer, and trash rates to ensure these user fees are established to cover the costs of providing these services. In March 2000, the board voted to lower water rates from \$8.05 to \$7.80 per thousand gallons of usage. An analysis of water revenues compared to water expenditures was performed by the city and indicated that revenues exceeded expenditures. However, the analysis indicated that two water pumps needed to be replaced at a cost of \$35,000. Additionally, because the city does not track fund balances, it is unknown if there was a positive balance in the water fund at the time that the analysis was completed. The city has apparently not reviewed the adequacy of sewer and trash rates for several years.

Water, sewer, and trash fees are user charges which should cover the cost of providing the related services, including depreciation costs. The city needs to perform a thorough review of the costs of providing these services and set rates appropriately.

- C. The city issued general obligation bonds in 1982 for construction of the city's sewer system. The bond covenants required the city to establish and maintain a sewer depreciation and replacement fund with monthly transfers from sewer operating revenues. These general obligation bonds were paid off in 1997.

In the past few years, the city has borrowed approximately \$34,000 from the sewer depreciation and replacement fund to pay for laying new water lines and other water system improvements. Although the city operates a combined water and sewer system, the use of sewer funds for water system improvements may be an inappropriate use of city funds. The current balance of the sewer depreciation and replacement fund is only approximately \$1,300.

The city ordinance establishing the sewer depreciation and replacement fund is still in effect. However, because the sewer bonds have been paid off, it is uncertain if the sewer depreciation and replacement fund needs to be maintained by the city. The city should consult with legal counsel to determine if this fund needs to be maintained and if the city needs to transfer the \$34,000 back to the fund, or whether this fund may be closed and the proper disposition of the monies remaining in this fund.

- D. City residents are required to pay a refundable \$65 water deposit and \$25 trash deposit before receiving water and trash service; however, the city does not maintain records of total customer deposits held. City officials indicated that the deposit amounts were increased about seven years ago, and prior to that, some residents' deposits were refunded to them. The city currently estimates that it should be holding approximately \$10,000 in water and trash deposits for its customers. To ensure all city residents have paid a proper deposit and the city only refunds deposits to residents that have actually paid, adequate records of water and trash deposits are necessary.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish separate funds or separate accountings of water, sewer, and trash revenues and expenditures to ensure these user fees are used only for providing these related services.
- B. Prepare a formal analysis of water, sewer, and trash rates and ensure the rates are set to cover all costs of providing these services.
- C. Consult with legal counsel to determine if the sewer depreciation and replacement fund needs to be maintained and the proper disposition of these monies.
- D. Identify all water and trash deposits held by the city.

**AUDITEE'S RESPONSE**

- A. *This has already been implemented.*
- B. *We agree and plan to complete a formal analysis of water, sewer, and trash rates by the end of 2001.*
- C. *An ordinance is in place that requires \$200 per month be deposited to the Sewer Fund. This will be done.*
- D. *We agree and will implement this recommendation.*

7.

**Expenditure Procedures**

- A. Other than payments to the city attorney, the city does not file Forms 1099 with the Internal Revenue Service, as required. The Internal Revenue Code requires payments of \$600 or more for services by nonemployees (other than corporations) be reported to the federal government on Forms 1099.
- B. Vendor invoices or other supporting documentation were not retained for some expenditures. Some of these expenditures included \$25,000 for street repair, \$3,200 for water system maintenance, \$1,715 for the purchase of radar equipment, \$1,548 for repairs to the city's backhoe, \$700 for repairing water leaks, and \$500 for the purchase of police uniforms and supplies. Documentation for the majority of these expenditures has subsequently been located by the city. All expenditures should be supported by paid receipts or vendor invoices to ensure the obligation was actually incurred and the expenditures represent appropriate uses of public funds.
- C. Reimbursements made to employees and officials were not always supported by adequate documentation of actual expenses incurred. Some employee expense

reports did not always contain sufficient information such as the date of trip, trip origin, destination, and purpose. On some occasions, expense reports were not retained by the city. As a result, it was not always possible to determine if mileage charged was reasonable. Without a detailed travel expense report, the city cannot adequately review and ensure the propriety of payments made for travel expenses.

In addition, the city reimbursed the mayor for meal expenses through petty cash reimbursements. Petty cash should only be used for emergency and non-recurring expenditures, and all meal expenses should be reimbursed to employees only upon the filing of detailed expense reimbursement reports.

- D. The ordinance that sets forth the City Administrator's duties indicates the City Administrator may authorize purchases of less than \$500. However, the city purchased new water meters in March 2000 for approximately \$1,900 without prior approval of the Board of Aldermen.

As of June 2000, the city no longer has a City Administrator. Therefore, the purchasing ordinance is currently inactive.

- E. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Although city officials indicated that bids were taken for some of the FEMA project expenditures, no bid documentation could be located for any of the FEMA expenditures.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- F. Two signatures are required for all disbursements. Checks from the general fund and the Federal Emergency Management Agency (FEMA) fund are sometimes signed in advance. Signing checks in advance does not allow for proper review of the documentation to support the disbursement and diminishes the control intended by dual signatures.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure that IRS Forms 1099 are filed as required.
- B. Require adequate supporting documentation for all expenditures.
- C. Require detailed travel expense reports be submitted. These reports should include information such as trip date, origin, destination, and purpose. In addition, the city should discontinue reimbursing meal expenses from petty cash.
- D. Ensure all expenditures have prior approval of the board or develop a purchasing ordinance to allow for some expenditures without prior approval.
- E. Adopt formal bidding policies and procedures.
- F. Discontinue the practice of signing checks in advance.

**AUDITEE'S RESPONSE**

- A. *We will implement this recommendation.*
- B. *We believe we are currently doing a better job in this area and invoices are currently being maintained for all expenses.*
- C. *We have already developed new mileage and expense reimbursement reports which include all of this information.*
- D. *At this time, the board would like to retain control over all expenditures due to the city's poor financial condition. In the future, we may explore the possibility of adopting a purchasing ordinance which allows small purchases without board approval.*
- E. *We agree and plan to adopt a formal bidding policy by July 15, 2001.*
- F. *We have already implemented this recommendation.*

**8.**

**Receipt Procedures**

- A. The city collects various types of receipts, such as property taxes, utility payments, city stickers, dog tags, and building permits. Property tax bills and utility payment stubs are marked paid and serve as the receipt slips. Manual receipt slips are issued for other monies received only if a receipt slip is requested. To adequately account for all receipts, prenumbered receipt slips should be issued for all monies received, other than property tax and utility receipts, and the numerical sequence should be accounted for properly.



- B. Checks and money orders received are not restrictively endorsed immediately upon receipt. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- C. The city's tax computer system records all receipts as checks, even though cash is received for some tax payments. To ensure all receipts have been recorded properly and deposited intact, the method of payment received should be recorded in the city's receipt records and the composition of receipt records should be reconciled to the composition of bank deposits.

**WE RECOMMEND** the Board of Aldermen:

- A. Require prenumbered receipt slips to be issued for all monies received, other than property tax and utility receipts, and ensure the numerical sequence of receipt slips is accounted for properly.
- B. Ensure checks and money orders are restrictively endorsed immediately upon receipt.
- C. Ensure the method of payment is recorded in the receipt records and the composition of receipt records is reconciled to the composition of bank deposits.

**AUDITEE'S RESPONSE**

- A. *We will implement this recommendation immediately.*
- B&C. *We have already implemented these recommendations.*

<b>9.</b>	<b>Petty Cash Procedures</b>
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The city maintains a \$200 petty cash fund on an imprest basis. We noted the following concerns with the city's petty cash procedures:

- A. Payments from the petty cash fund were not always supported by invoices or supporting documentation. Our review of 25 petty cash expenditures noted six payments totaling \$63 were made out of the petty cash fund without invoices or supporting documentation. Invoices should be retained to support the propriety of all petty cash payments.
- B. Prior to October 2000, property tax receipts and utility receipts were used to replenish the petty cash fund. This practice was discontinued in October 2000. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, receipts should be deposited intact, and the petty cash fund should be replenished only by checks approved by the Board of Aldermen.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure invoices are maintained for all petty cash expenditures.
- B. Continue to ensure daily collections are deposited intact and the petty cash fund is replenished only by checks approved by the Board of Aldermen.

**AUDITEE'S RESPONSE**

- A. *We believe we have been doing a better job in this area and invoices are currently being maintained for all petty cash expenditures.*
- B. *We will continue to replenish the petty cash fund by checks approved by the board.*

<b>10. Personnel Related Issues</b>
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- A. During the year ended June 30, 2000, city employees purchased items for personal use with city monies. These items cost approximately \$860 and included chairs, paper products, printer stand, tool chest, and various office products. These expenditures were reimbursed to the city through payroll deductions over several weeks, resulting in the city providing its employees with interest-free loans on the personal purchases. In addition, some of the invoices for these purchases did not include sales tax. State law requires sales taxes to be paid on personal purchases. The city should discontinue the practice of allowing employees to purchase personal items with city funds.
- B. The Board of Aldermen approved yearly performance awards totaling \$800 for city employees in November 1999 and gift certificates totaling \$300 for city employees in December 2000. These payments were not budgeted as part of the employees' official salaries. Performance awards and gift certificates given to employees appear to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39 of the Missouri Constitution. In addition, Attorney General's Opinion No. 72, 1955 to Pray, 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."
- C. The city does not report, withhold payroll taxes, and pay the employer's share of social security for compensation paid to the mayor or board of aldermen. Additionally, the city reports the municipal judge's compensation on Form 1099, but does not withhold payroll taxes or pay the employer's share of social security. IRS regulations require employers to report wages on W-2 forms and withhold federal income taxes. Similarly, Chapter 143, RSMo 2000, includes requirements for reporting wages and withholding state income taxes. State and federal laws

require employers to withhold payroll taxes and pay the employer's share of social security on the compensation paid to employees. Section 105.300, RSMo 2000, defines an elective or appointive officer or employee of a political subdivision as an employee for social security tax purposes.

**WE RECOMMEND** the Board of Aldermen:

- A. Prohibit the purchase of personal items with city funds.
- B. Discontinue paying performance awards and gift certificates to employees.
- C. Ensure all compensation paid to city officials is properly reported and appropriate payroll taxes are withheld and paid. In addition, the city should file amended W-2 forms for the unreported employee compensation.

**AUDITEE'S RESPONSE**

- A. *The board allowed this practice for police officers to purchase items related to their official city duties. We were not aware that other city employees were doing this and it will be discontinued immediately.*
- B. *We do not plan to give any more performance awards or gift certificates.*
- C. *We will implement this recommendation immediately.*

<b>11. Budgets, Ordinances, and Financial Reporting</b>
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- A. The city's budgets do not include some information required by state law. In addition, the city's budgets do not provide for a separate accounting of funds restricted for specific purposes, including water, sewer, and trash funds, debt service funds, motor vehicle-related funds restricted for street purposes, and court fees restricted for law enforcement training.

The budgets do not include beginning available resources or projected ending fund balances, a budget message describing the important features of the budget and major changes from the preceding years, comparative revenues and expenditures for the two years preceding the budget year, interest, amortization, or redemption charges on general obligation bonds, and a general budget summary.

Section 67.010, RSMo 2000, requires each political subdivision of the state to prepare annual budgets with specific information. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A complete budget should include appropriate revenue and expenditure estimates by

classification, and include the beginning available resources and reasonable estimates of the ending available resources for all funds. The budget should also include a budget message, comparative revenues and expenditures for the two years preceding the budget year, all expenses related to general obligation bonds, and a general budget summary. In addition, the budgets should provide for a separate accounting of funds restricted for specific purposes.

- B. In July 2000, the city entered into a lease-purchase agreement for a bobcat and made a \$2,700 down payment, along with an obligation for monthly payments of \$343. This purchase was not included in the city's year ended June 30, 2001 budget, and a budget amendment was not prepared and approved by the board to include this additional expenditure. In addition, the city did not prepare a budget amendment for the year ended June 30, 1999, for FEMA project monies received (\$121,000) and disbursed (\$74,000). Section 67.040, RSMo 2000, requires board approval for any increase in budgeted expenditures after the initial budget is approved.
- C. The city's semi-annual published financial statements do not include sufficient information to inform readers of the financial condition of the city. The financial statements include receipts and expenditures but do not include beginning and ending cash balances. Some major classifications of receipts and expenditures, such as sales tax receipts, motor vehicle-related receipts, and street-related expenditures, are not shown separately, and receipts and expenditures are not classified separately by fund categories, such as the debt service fund. In addition, the financial statements do not include the city's indebtedness, including bonds payable, capital lease obligations, or unpaid bills of the city.  
  
Section 79.160, RSMo 2000, requires the Board of Aldermen to publish semi-annually a full and detailed account of the receipts, expenditures, and indebtedness of the city. The publication of such financial statements are intended to provide information to citizens regarding the financial activity and condition of the city.
- D. The city's ordinance book is not complete. Several ordinances are not included in the book, and in some instances, out-dated versions of ordinances are in the book even though these ordinances have been revised. Since ordinances represent legislation which has been passed by the Board of Aldermen to govern the city and its residents, it is important that the ordinances be maintained in a complete, well organized, and up-to-date manner.
- E. The city has not obtained annual audits of its combined waterworks and sewage system as required by state law. Section 250.150, RSMo 2000, requires the city to obtain annual audits, and the cost of the audits is to be paid from the revenues received from the system. Besides being required by state law, regular audits of the water and sewer system (and other city funds) would better enable the city to:

1. Ascertain the stewardship of the public officials who handle and are responsible for the financial resources of the city.
2. Determine the propriety and accuracy of its financial transactions.
3. Ensure the revenues of the sewer system are adequate to meet the expenses of providing this service.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure annual budgets include all relevant information, as required by state law. In addition, the budgets should provide for a separate accounting of funds restricted for specific purposes.
- B. Keep expenditures within the amounts budgeted. If additional revenues will be received and/or additional expenditures are necessary, the extenuating circumstances should be fully documented and the budgets properly amended.
- C. Ensure the published financial statements provide the citizens a detailed account of the financial activity and indebtedness of the city.
- D. Ensure a complete and up-to-date set of ordinances is maintained.
- E. Obtain annual audits of the combined waterworks and sewage system as required by state law.

**AUDITEE'S RESPONSE**

- A. *We are currently working on the year ended June 30, 2002 budget and we will include all relevant information as required by state law.*
- B. *Due to the city's poor financial condition, we plan to closely monitor the budget and keep expenditures within the budgeted amounts. Budget amendments will be prepared as needed in the future.*
- C. *We will implement this recommendation for the next required published financial statement.*
- D. *We are currently updating the city's ordinance book and plan to have this completed as soon as possible.*
- E. *We plan to obtain annual audits and have included the cost of an audit in next fiscal year's budget.*

- A. The city does not maintain records to account for all property owned by the city. City officials indicated an inventory count was conducted during the year ended June 30, 2000; however, documentation of this inventory count could not be located. The city has an inventory of tools on file and an inventory of employee-owned fixed assets located in City Hall. However, the tools inventory is not dated to indicate when the inventory was taken, and both inventory listings only include descriptions of the fixed assets. Information such as make or model number and physical location of the assets was not included to properly identify the fixed assets.

Property records of city assets should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a detailed description of the assets including the name, make and model numbers and asset identification number, physical location of the assets, and date and method of disposition of the assets. All property items should be identified with a tag or other similar device, and the city should conduct annual inventories. Additionally, all property owned by city employees should also be properly tagged.

Adequate general fixed asset records are necessary to secure better internal control and safeguard city assets which are susceptible to loss, theft, or misuse, and provide a basis for determining proper insurance coverage required on city property.

- B. The city has two police cars, one pickup truck, one dump truck, and one backhoe. Usage and maintenance logs are not maintained for the city vehicles or equipment.

Vehicle logs should be maintained indicating the employee using the vehicle, purpose of the trip and destination, and beginning and ending odometer readings. Equipment logs should include the employee using the equipment, purpose, and readings of hours used. All logs should include operation and maintenance costs. The logs should be reviewed by the board to help ensure there is no inappropriate personal use of the city's vehicles or equipment, verify the propriety of fuel and maintenance costs, and identify the need to replace vehicles or equipment which incur excessive maintenance costs.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure property records are maintained which include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. Additionally, the city should properly tag, number, or

otherwise identify all applicable city and employee-owned property and conduct annual inventories of city property.

- B. Require daily usage and maintenance logs be maintained for the city vehicles and equipment, and periodically review the logs.

**AUDITEE'S RESPONSE**

- A. *We will implement this recommendation by the end of 2001.*
- B. *This recommendation has already been implemented.*

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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