



Claire McCaskill

Missouri State Auditor

December 2005

Village of Brownington, Missouri

Year Ended June 30, 2005



Office Of
Missouri State Auditor
Claire McCaskill

December 2005

The following problems were discovered as a result of an audit conducted by our office of the Village of Brownington, Missouri.

Potential conflicts of interest and inadequate segregation of duties regarding the Chairman of the Board of Trustees and the Village Clerk were noted.

- The April 2004 minutes of the Board of Trustees indicate the wife of the Chairman of the Board seconded the motion to reappoint her husband as Chairman, in potential violation of the Missouri Constitution. According to the minutes, only three of the five members of the board were present at this meeting.
- One board member serves as the Village Clerk and Village Treasurer, which appears contrary to an Attorney General's opinion.
- The board has not established the term of the Village Clerk, and her compensation has not been set by ordinance.

Open meeting minutes did not always document that closed meetings were held, the related vote to close the meetings, or the final disposition of matters discussed in closed meetings, as required by state law. In addition, the village did not give proper notice of the public hearing on the proposed property tax rate, as required by state law.

The village 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. Additionally, adequate documentation was not obtained for legal services totaling \$2,668, and invoices are not adequately reviewed before payment is made.

The village's annual budgets did not include some information required by state law, and semi-annual financial statements have not been published as required. In addition, the village has not prepared an annual maintenance plan for village streets.

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YELLOW SHEET

VILLAGE OF BROWNINGTON, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Chairman
and
Board of Trustees
Village of Brownington
Deepwater, Missouri 64740

The State Auditor was petitioned under Section 29.230, RSMo, to audit the village of Brownington, Missouri. The scope of our audit of the village included, but was not necessarily limited to, the year ended June 30, 2005. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the village, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the

provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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

The accompanying Management Advisory Report presents our findings arising from our audit of the Village of Brownington, Missouri.



Claire McCaskill
State Auditor

October 18, 2005 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Donna Christian, CPA, CGFM
In-Charge Auditor: Amy Baker

MANGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

VILLAGE OF BROWNINGTON, MISSOURI
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Village Officers and Controls

The wife of the Chairman of the Board seconded the motion to appoint her husband as Chairman which appears to be a violation of the Missouri Constitution. The board has one member that serves as the Village Clerk and Treasurer, and the Board of Trustees has not established the term of the Village Clerk, or set her compensation by ordinance. Additionally, board members who can sign checks are not bonded.

A. The Chairman of the Board of Trustees and the Village Clerk (currently a member of the Board of Trustees) are husband and wife. Our review noted potential conflicts of interest and inadequate segregation of duties regarding these positions.

1. The April 2004 minutes of the Board of Trustees indicate the wife of the Chairman of the Board seconded the motion to reappoint her husband as Chairman. According to the minutes, only three of the five members of the Board of Trustees were present at this meeting. The minutes do not indicate the specific votes taken on the motion but do indicate the motion carried.

Article VII, Section 6 of the Missouri Constitution provides that any public official who names or appoints to public office or employment any relative within the fourth degree shall forfeit his office. Because of the serious consequences which result by appointing a relative, the board should ensure its members abstain from any decision to appoint a relative and ensure that action is fully documented in the board minutes.

Discussions and decisions concerning situations where potential nepotism or conflicts of interest exist should be completely documented so that the public has assurance that no village official has benefited improperly. In addition, the board should consider establishing a policy which addresses these types of situations and provides a code of conduct for village officials.

2. The Board of Trustees has not appointed separate individuals to serve as Village Clerk and Village Treasurer. Presently, the board has one member that serves as the Village Clerk and Village Treasurer, and her husband serves as Chairman of the Board of Trustees. The duties of the Village Clerk include maintaining receipt and disbursement records, making bank deposits, preparing and signing checks, receiving bank statements, and

preparing financial reports. It is the duty of the Chairman of the Board of Trustees to report village finances to the public.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible. The statutes pertaining to villages are similar to those cited in this opinion and, thus, the opinion's conclusion appears applicable to villages.

Holding all of these offices does not allow the segregation of duties necessary for a proper evaluation and review of financial statements. The current procedures jeopardize the system of independent checks and balances intended by state law.

- B. The Board of Trustees has not established the term of the Village Clerk, and her compensation has not been set by ordinance. Village ordinance number 18 indicates the term of the Village Clerk is up to the Board of Trustees; however, there is no documentation to indicate that a term has been established. The current Village Clerk was appointed in 2000, and is paid a salary of \$25 per month (increased to \$100 per month effective December 2004) to perform the duties of that office. In 2004 the Village Clerk was elected to the Board of Trustees.

To comply with village ordinance, the Board of Trustees should establish a term for the Village Clerk. Additionally, compensation rates set by ordinance document the approved amounts to be paid and reduce potential misunderstandings. In addition, ordinance hearings provide for public input and information concerning the salaries paid.

- C. The Village Clerk and one Board member are authorized to sign checks; however, the village does not have bond coverage for them. Section 80.225 RSMo, requires the Village Clerk to be bonded in a sum not less than one thousand dollars. Failure to properly bond all persons with access to assets exposes the village to risk of loss.

Conditions similar to parts B and C were noted in our prior report for the year ended June 30, 1999.

WE RECOMMEND the Board of Trustees:

- A.1. Avoid transactions that represent actual conflicts of interest or the appearance of a conflict of interest and ensure all appointments of individuals to village positions comply with the restrictions of Article VII, Section 6, of the Missouri Constitution, in regard to the appointment of relatives. If a relative of a village

official is considered for appointment, that official should abstain from voting on the appointment and that action should be adequately documented in the minutes.

2. Consider appointing separate individuals to the positions of Village Clerk and Village Treasurer. If this is not possible, at a minimum, procedures for an adequate independent review of the record keeping functions should be established.
- B. Establish by ordinance the salaries or pay rates and applicable terms of office for all officials and employees.
- C. Obtain bond coverage for all persons with access to village monies.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A.1. *We generally avoid transactions that represent a conflict of interest; however, there were only three board members present at the meeting noted. In the future, we will adjourn the meeting until all members can be present.*
2. *We plan to designate one board member to receive the bank statements directly from the bank and review them.*
- B. *At our November 2005 meeting we established the salary of the clerk by ordinance. We will amend the ordinance to also include a term.*
- C. *We now have bond coverage for both officials who can sign checks.*

2. Board Meetings

Improvement is needed in the handling of closed session meetings, and the village did not give proper notice of the public hearing on the proposed property tax rate.

- A. Open meeting minutes did not always document that closed meetings were held, the related vote to close the meetings, or the final disposition of matters discussed in closed meetings. In addition, the board held a closed meeting in June 2005 for the purpose of discussing legal issues, but also discussed and approved contracting with the county sheriff's department for the enforcement of village ordinances. It is unclear how this topic is allowed under the provisions of the Sunshine Law. Additionally, this decision was not recorded in the regular minutes or otherwise publicly posted.

Section 610.022, RSMo, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting shall

be voted on at an open session. In addition, this law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote. Section 610.021, RSMo, allows the board to discuss certain subjects in closed meetings, including litigation, real estate transactions, bid specifications and sealed bids, personnel matters, and confidential or privileged communications with auditors. The board should restrict the discussion in closed sessions to the specific topics listed in Chapter 610 of the state statutes.

- B. The village did not give proper notice of the public hearing on the proposed property tax rate. The board held a special meeting on August 18, 2005 to set the tax rate; however the meeting notice was posted only one day before the meeting and in only one public place. Additionally, the notice for the October 12, 2004, regular meeting of the board included the tax rate as an item on the agenda; and was also only posted one day before the meeting and in only one public place.

Section 67.110, RSMo requires notice of the public hearing to be published or posted in at least three public places at least seven days prior to the date of the hearing. The notice should include the assessed valuation of real and personal property for the current and preceding tax year, the revenue required to be provided from the property tax, and the tax rate proposed.

WE RECOMMEND the Board of Trustees:

- A. Ensure minutes document the vote to go into closed session, state the reasons for going into closed session, and publicly disclose the final disposition of applicable matters discussed in closed session. In addition, the board should ensure only allowable specified subjects are discussed in closed session as required by state law.
- B. Ensure the notice given for the public hearing on the proposed property tax rate complies with state law.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *In the future, we will ensure procedures for closed meetings comply with state law.*
- B. *In the future, we will post public notices 7 days prior to the public hearing.*

3.

Village Expenses

The village does not have a formal bidding policy, and invoices are not always thoroughly reviewed before payment is made.

- A. The village 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. While it appears bids are generally solicited for purchases of goods or services, bids were either not solicited or bid documentation was not retained for a trash dumpster costing \$900. Additionally the village paid attorney fees of \$1,661 during the year ended June 30, 2005, and \$2,668 in July 2005 without soliciting proposals for these services. Further, adequate documentation was not obtained for the \$2,668 paid in July 2005.

Formal bidding procedures for major purchases would provide a framework for economical management of village resources and help ensure the village receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the village's business. Not only can bids be handled by telephone quotation, but bids can also be obtained 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. While professional services, such as attorneys, may not be subject to the standard bidding procedures, the city should solicit proposals for professional services to the extent practical. Further, adequate documentation should be maintained for all expenditures.

A similar condition was noted in our prior report for the year ended June 30, 1999.

- B. Invoices are not always adequately reviewed before payment is made. One invoice for mowing of the community building grounds indicated that mowing services were provided on six different dates; however, the village was billed and paid for seven mowing services. The village pays \$25 each time mowing services are provided. It is unclear from village records whether or not the village over paid for mowing services or a date was omitted from the invoice. While this invoice was reviewed and approved by the board, it appears that the calculations were not checked for accuracy. To ensure amounts paid for goods and services are accurate, invoices should be thoroughly reviewed, including recalculating the amount billed.

WE RECOMMEND the Board of Trustees:

- A. Establish formal bidding policies and procedures which includes the solicitation of proposals for professional services, and obtain adequate documentation for all expenditures.
- B. Review invoices thoroughly, including recalculating amounts billed, prior to making payment. In addition, follow up to determine the accuracy of the amount paid for mowing services.

AUDITEE'S RESPONSE

The Board of Trustees provided the following responses:

- A. *We obtained phone bids for the dumpster, but did not maintain documentation. The \$2,668 for legal expenses represents \$168 for court costs and \$2,500 for a retainer. We have contacted our attorney to obtain detailed information regarding the retainer. Prior to hiring our attorney we contacted numerous attorneys, but did not maintain documentation of these contacts. We will consider establishing a bidding policy.*
- B. *In the future, we will review the mowing invoices more closely.*

4. Budgets and Published Financial Statements
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Village budgets need improvement, and financial statements were not published or publicly posted in accordance with state law.

- A. The village's annual budgets were not in full compliance with state law. The 2004 budget did not include actual receipts and disbursements from the two previous years, and the 2005 and 2004 budgets did not include actual and estimated cash and resources available at the beginning and end of the year. Additionally, the village budget is prepared on a calendar year basis; however, the village operates on a June 30 fiscal year end. Further, the budget for the year ended December 31, 2005 was not approved until March 8, 2005, and there is no documentation to indicate that the 2004 budget was approved by the Board of Trustees.

Sections 67.010 through 67.040 RSMo, set specific guidelines as to the format and approval of the annual operating budget and requires budgets to be adopted by order, motion, resolution, or ordinance. A complete budget should include the beginning available resources, reasonable estimates of the ending available resources, and comparisons of actual revenues and expenditures for the two preceding fiscal years.

Additionally, Section 67.080, RSMo, provides that no disbursement of public monies shall be made unless it is authorized in the budget. Budgets should be signed or initialed by the board and retained with the official minutes to adequately document the board's approval. To be of maximum benefit to the taxpayers and to properly monitor village activity, the village should prepare budgets that correlate to its fiscal year, and adopt the budget prior to the beginning of the fiscal year.

- B. The village has not published semi-annual financial statements as required by state law. The village published financial statements for July through December

2003 and 2004, but did not publish financial statements for January through June 2004 and 2005.

Additionally, the published financial statements and the monthly financial reports prepared by the Village Clerk are not separated by fund. For instance, instead of reporting the activity of the Street Fund and the General Fund separately, the village groups these funds and reports combined financial information for these two funds.

Section 80.210, RSMo requires the chairman of the board of trustees prepare and publish semiannual financial statements in a local newspaper or post semiannual financial statements in six public places within the village. Additionally, to better inform the citizens, the city should consider reporting financial information separately for each fund.

Similar conditions were noted in our prior report for the year ended June 30, 1999.

WE RECOMMEND the Board of Trustees:

- A. Prepare annual budgets in accordance with state law. Additionally, budgets should be prepared to correlate to the village's fiscal year, and the budget should be approved prior to the beginning of the fiscal year.
- B. Ensure semi-annual financial statements are published or posted in accordance with state law and report financial information for each fund separately.

AUDITEE'S RESPONSE

The Board of Trustees provided the following response:

A&B. In the future, we will ensure our budgets and financial statements comply with state law.

5.

Street Maintenance Plan

An annual maintenance plan for village streets has not been prepared. The village's road fund balance at June 30, 2005 was \$6,616. During the year ended June 30, 2005 the village only spent \$1,596 for electricity for street lights, and \$109 for rock from the road fund. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the village residents. A formal maintenance plan would serve as a useful management tool and

provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

A similar condition was noted in our prior report for the year ended June 30, 1999.

WE RECOMMEND the Board of Trustees prepare a formal maintenance plan for city streets at the beginning of the fiscal year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

AUDITEE'S RESPONSE

The Board of Trustees provided the following response:

We do not feel a formal plan will improve our situation. If a road needs gravel, we will gravel it. If a road needs grading, we will have it graded.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

VILLAGE OF BROWNINGTON, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The village of Brownington is located in Henry County. The village was incorporated in 1885. The population of the village in 2000 was 119.

The village government consists of a five-member board of trustees. The members are elected for 2-year terms, and serve without compensation. The chairperson is appointed by the board from the members. The village board of trustees, and other principal officials during the year ended June 30, 2005, are identified below.

	Dates of Service During the Year Ended June 30, 2005	Compensation Paid for the Year Ended June 30, 2005
Jim Pogue, Chairperson	July 2004 to June 2005	
Kay Pogue, Clerk (1)	July 2004 to June 2005	\$ 825
Blane Denison	July 2004 to June 2005	
J. W. Pemberton	July 2004 to June 2005	
Gladys Walker	July 2004 to June 2005	

(1) Board member Kay Pogue also serves as the village clerk, and received a salary of \$25 per month, increased to \$100 per month in December 2004.

Assessed valuations and tax rates for 2004 were as follows:

ASSESSED VALUATIONS

Real estate	\$ 221,440
Personal property	133,810
Railroad and utility	<u>37,566</u>
Total	<u>\$ 392,816</u>

TAX RATE(S) PER \$100 ASSESSED VALUATION

	<u>Rate</u>
General Fund	\$.6780

A summary of the village's financial activity for the year ended June 30, 2005, is presented below:

	General Fund	Road Fund	Total
RECEIPTS			
Property taxes	\$ 2,096		2,096
Franchise fees	2,328		2,328
Motor fuel and motor vehicle fees		4,553	4,553
Interest	47		47
Other	2,357		2,357
Total Receipts	6,828	4,553	11,381
DISBURSEMENTS			
Salaries	825		825
Utilities	125	1,596	1,721
Office	316		316
Maintenance and Mowing	675	109	784
Insurance	338		338
Dumpsters	900		900
Legal	1,661		1,661
Miscellaneous	458		458
Total Disbursements	5,298	1,705	7,003
Receipts Over (Under) Disbursements	1,530	2,848	4,378
Cash Balance, July 1, 2004	6,024	3,768	9,792
Cash Balance, June 30, 2005	\$ 7,554	6,616	14,170