



Susan Montee, CPA

Missouri State Auditor

March 2007

City of Farmington, Missouri

Year Ended September 30, 2006



Office Of
Missouri State Auditor
Susan Montee, CPA

March 2007

The following findings were included in our audit report on the City of Farmington, Missouri.

The city of Farmington operates various city-owned utility operations including electric, water, and sewer services, with the electric and water operations being accounted for in the Utility Fund. The operating revenues and expenses of the Utility Fund totaled over \$19 million and \$17.5 million, respectively, in fiscal year 2006, with the electric operations accounting for over 90 percent of the fund's activity.

The city has historically transferred substantial amounts of money from its Utility Fund to help finance the operations and activities of the General Fund. From fiscal year 2001 through 2006, year-end net operating transfers from the Utility Fund to the General Fund totaled approximately \$5.6 million. City officials indicated these transfers made up for a gross receipts (utility franchise) tax the city would otherwise collect if a private utility company operated within the city and to cover administrative costs incurred by the General Fund to operate the city utility operations. However, no ordinance has been established authorizing monies to be transferred from the Utility Fund to the General Fund as payments in lieu of taxes (PILOTS). In addition, no documentation has been prepared to determine the amount of administrative costs being paid by the General Fund to support the utility operations.

Utility services should not generate profits to fund other services provided by the city. If the city continues to transfer utility monies periodically to the General Fund, the city should develop a methodology for determining reasonable PILOTS and ensure such transfers are properly authorized by ordinance. In addition, documentation should be prepared and maintained to determine/support the amount of any utility-related administrative costs reimbursed to the General Fund.

During fiscal year 2006, the City Council approved significant electric rate increases in October 2005 and February 2006, of 29 and 16 percent, respectively (these rate increases were not fully realized as the council did not implement the 2006 summer rates). It appears these rate increases occurred due to significant increases in the cost of power incurred by the city and the transfers made in prior years.

Over 80 percent of the expenditures of the electric operation represent power purchases from its power supplier, with total power purchases increasing from about \$6.8 million in fiscal year 2002 to over \$14.3 million in fiscal year 2006. Total operating revenues of the electric operations have not kept pace with the increased power costs, and it appears the city did not effectively monitor the cost increases and approve substantial rate adjustments until fiscal year 2006. In addition, the city did not maintain adequate documentation to

(over)

YELLOW SHEET

support how the recent rate increases were determined, with little or no documentation to support some information included in the budgets. Further, the city does not maintain separate funds to account for the financial activity of its electric and water operations. This is necessary to fully account for the respective activities of the electric and water operations.

The financial condition of the city's General Fund has been in decline in recent years. From fiscal year 2001 through fiscal year 2005, expenditures exceeded revenues and net transfers in. Available cash and investment balances of the General Fund decreased significantly from \$2.7 million in fiscal year 2001 to \$275,000 at the end of fiscal year 2005. Had various interfund transfers to the General Fund not been made, the fund's financial situation would have been even worse. The city cannot continue to expend monies in excess of its available resources. City officials should monitor the financial condition of the city and develop a long range plan which will allow the city to operate within the resources that are available. In fiscal year 2006, the city took various measures to reduce its expenditures, resulting in the General Fund's financial condition improving in that year.

The financial information provided to the City Council did not always provide an accurate reflection of the financial activity and condition of the city's funds. Transactions related to monthly power purchases of about \$1 million in fiscal year 2005 were not properly reflected in the accounting information provided to the council in that year. In addition, the information presented in the city's budgets and budget amendments was not always reasonable nor did the annual budgets always include all required or necessary information.

Improvement is needed in the Finance Department's controls and procedures related to bank reconciliations, outstanding checks, and receipts. Utility billing adjustments have not been adequately documented nor reviewed and approved on a periodic basis by management. In addition, records and procedures related to the handling of receipts in other city departments need to be improved.

The city did not always solicit bids for various goods and services or procure general engineering and architectural services in accordance with its purchasing policy. In addition, the city did not enter into contracts for some services.

In December 2005, the city purchased gift cards and gift certificates at a cost totaling \$13,000 for the city's full-time and regular part-time employees. The costs of such expenditures for city employees do not appear to be prudent uses of public funds and may violate the Missouri Constitution.

The city's published financial statements have not included receipt and expenditure information as required by statute and annual financial reports have not been submitted to the State Auditor's Office (SAO) as required by state law. In addition, the city's annual financial audits have not always been completed timely.

Also included in the report are recommendations related to credit card purchases, the use of city vehicles and operating costs, the untimely remittance of taxes to the Department of Revenue, minutes and ordinances, and the municipal court.

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

CITY OF FARMINGTON, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS	4-28
<u>Number</u>	<u>Description</u>
1.	Utility Operations5
2.	Financial Condition and Budgets.....9
3.	Expenditures12
4.	Accounting Controls and Procedures14
5.	Use of City Vehicles and Operating Costs18
6.	Financial Reporting and Audits20
7.	Remittance of Taxes to Department of Revenue21
8.	Minutes and Ordinances22
9.	Municipal Court and Related Matters.....23
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	29-32

STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Farmington, Missouri. The city engaged Maloney, Wright, and Robbins, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended September 30, 2006. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended September 30, 2006. 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 city, 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 work for this audit was substantially completed by December 2006.

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

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



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Gregory A. Slinkard, CPA, CIA
In-Charge Auditor: Julie Vollmer, CPA

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF FARMINGTON
MANAGEMENT ADVISORY REPORT –
STATE AUDITOR'S FINDINGS

1.	Utility Operations
-----------	---------------------------

The city has transferred substantial amounts from the Utility Fund to the General Fund without the transfers being properly justified, documented, or authorized. The city needs to more closely monitor the financial activity of the electric operations and make timely rate adjustments, as needed. In addition, the city does not maintain separate funds to account for the revenues and expenditures of its electric and water operations.

The city of Farmington operates various city-owned utility operations to provide utility services to its citizens. These operations include electric, water, and sewer services. The electric and water operations are accounted for in the Utility Fund (with operating revenues and expenses totaling over \$19 million and \$17.5 million, respectively, in fiscal year 2006), with the electric operations accounting for over 90 percent of the fund's activity. The sewer operation and related activities (with operating revenues and expenses totaling over \$1.6 million and \$1.5 million, respectively, in fiscal year 2006) are accounted for in a separate fund. Our review of the records and activities of the Utility Fund disclosed the following concerns:

- A. The city has historically transferred substantial amounts of money from its Utility Fund operations (primarily electric operations) to help finance the operations and activities of the General Fund. From fiscal year 2001 through 2006, year-end net operating transfers from the Utility Fund to the General Fund totaled approximately \$5.6 million. The following table presents the approximate Utility Fund transfers to (from) the General Fund during this period:

	Year Ended September 30,					
	2006	2005	2004	2003	2002	2001
Transfers to (from)	\$ 843,000	(250,000)	1,795,000	588,000	1,380,000	1,252,000
Percent of Utility Revenues Transferred	4.5%	(2%)	13%	4.5%	12%	12.5%

Even though the city budgeted a transfer of approximately \$2 million from the Utility Fund to the General Fund for fiscal year 2005, no transfer was made for that year. Instead, the General Fund transferred approximately \$250,000 to the Utility Fund that year to help pay operating expenses of that fund.

It appears that the city would generally budget a transfer from the Utility Fund in an amount equal to any projected operating surplus for the year. City officials indicated that operating surpluses of the Utility Fund have been traditionally determined at the end of the fiscal year. No methodology was provided for these

transfers and there was not adequate documentation maintained to support how the year-end transfer amounts were determined.

City officials indicated these transfers to the General Fund are justified, at least in part, to make up for a gross receipts (utility franchise) tax the city would otherwise collect if a private utility company operated within the city and to cover administrative costs incurred by the General Fund to operate the city utility operations. However, no ordinance has been established authorizing monies to be transferred from the Utility Fund to the General Fund as payments in lieu of taxes (PILOTS). In addition, no documentation has been prepared to determine the amount of administrative costs being paid by the General Fund to support the utility operations.

This situation does not provide assurance that the user fees related to these utility operations have been established at levels consistent with the costs of providing those services. It appears the city has relied on the Utility Fund to help finance other city operations. The electric rates have been set to pay for operating costs and transfer monies to the General Fund and the city may have established higher utility rate structures than necessary in lieu of increasing general revenues or reducing services provided by the city.

The Utility Fund operations are separate accounting entities designed to account for specific city activities. Utility revenues should be used only to fund the operations of the respective utility services, including any reasonable and properly authorized PILOTS and adequately documented administrative cost reimbursements. Rates for utility services should be set to cover the costs of producing and delivering services (including administrative costs), repaying debt, if applicable, and repairing and replacing infrastructure. These utility services should not generate profits to fund other services provided by the city.

If the city continues to transfer utility monies periodically to the General Fund, the city should develop a methodology for determining reasonable PILOTS and ensure such transfers are properly authorized by ordinance. In addition, documentation should be prepared and maintained to determine/support the amount of any administrative costs reimbursed the General Fund related to utility operations.

- B. The City Council approved two significant electric rate increases during fiscal year 2006. Electric rates had not been adjusted from February 2002 until September 2004, when an electric rate increase of about two percent was approved. That rate adjustment was followed by two significant rate increases in October 2005 and February 2006, of 29 and 16 percent, respectively (these rate increases were not fully realized as the council did not implement the 2006 summer rates). It appears these rate increases occurred due to significant increases in the cost of power incurred by the city and the transfers made in prior years as discussed in Part A, above.

Over 80 percent of the expenditures of the electric operation (not including depreciation) represent power purchases from its power supplier (the Missouri Joint Municipal Electric Utility Commission) which has increased significantly in recent years. Total power purchases increased from approximately \$6.8 million in fiscal year 2002 to over \$14.3 million in fiscal year 2006. While a portion of this is due to an increase in power usage during this period, most of the increase has been due to the price of power purchased, with the cost of power increasing from about \$36 per mWh (megawatt hour) in 2002 to over \$65 per mWh in 2006 (through September 2006). The most significant increases occurred during the latter part of 2005 and 2006. It appears the increase in the costs of power is primarily the result of deregulation in the wholesale power market.

During our review of this situation, the following concerns were noted:

1. Total operating revenues of the electric operations have not kept pace with the increased power costs, and it appears the city did not effectively monitor the cost increases and approve substantial rate adjustments until fiscal year 2006. For example, electric revenues totaled \$11.9 million, \$12.4 million, and \$13.5 million in fiscal years 2003, 2004, and 2005, respectively, an average increase of 7.5 percent. In contrast, power purchases totaled \$7.9 million, \$8.7 million, and \$10.9 million in fiscal years 2003, 2004, and 2005, respectively, an average increase of 17.5 percent in those years. Although the city council approved a two percent rate increase in September 2004, that increase was not enough to offset the increase in the cost of power that year. In addition, the increased costs of power resulted in the city having difficulty covering the costs of its electric operation in fiscal year 2005. Had the city considered adjusting electric rates on a more timely basis, the subsequent rate increases in fiscal year 2006 may not have been so significant.

The city needs to closely monitor the financial activity of the electric operations and be alert for significant changes in the costs incurred by that operation. If significant changes in the operating costs or conditions of the operation are experienced, rates should be adjusted accordingly.

2. The city did not maintain adequate documentation to support how the recent rate increases noted above were determined. City officials indicated that the information to support the rate increases was contained primarily in the city's budget documents; however, there was little or no documentation to support some information included in the budgets. For example, there was not adequate documentation to explain how the estimated or projected electric revenues were determined, how the amount of power purchases were determined, or how the approved electric rate increases were calculated.

The city should prepare and maintain thorough and detailed documentation to support and justify any utility rate adjustments.

While better documentation is needed to support any utility rate adjustments, it appears the electric rates set in fiscal year 2006 generated revenues that covered its expenses in that year, allowed a transfer of \$843,000 to the General Fund (4.5 percent of Utility Fund revenues), and retain some surplus for future cash flow and operating needs.

- C. The city does not maintain separate funds to account for financial activity of its electric and water operations. Currently, both of these utility operations are accounted for in the Utility Fund. While the electric and water operations have separate categories for budget and actual amounts, the accumulated balances of the respective utility operations are not accounted for separately. In addition, it appears revenues from the electric operations have been used to offset some losses in the water operations.

To ensure user fee revenues for electric and water are used only for providing these respective services, the city should maintain separate funds to fully account for the respective activities of the electric and water operations.

WE RECOMMEND the City Council:

- A. Discontinue transferring Utility Fund monies to the General Fund to support other general city operations unless such transfers are properly justified, documented, and authorized. If the city continues making transfers of this nature, it needs to develop a methodology for determining the amount of the transfers, establish an ordinance(s), as needed, to authorize the transfers, and prepare and retain adequate documentation to support the transfers made.
- B. Closely monitor the financial condition of the electric operations, and be alert for any significant changes in the costs incurred by that operation. If significant changes in the costs or conditions of the operation are experienced, rates should be adjusted accordingly. In addition, thorough and detailed documentation should be prepared and maintained to support and justify any utility rate adjustments.
- C. Ensure separate funds are established to fully account for the financial activities and balances of the electric and water operations and ensure any user fees are used only to pay the costs of those respective services.

AUDITEE'S RESPONSE

- A. *It has been the practice of the City to transfer monies from the Utility Fund to support other City operations for 25 plus years. It is the intent of the City to continue to make a transfer of the utility funds. Therefore, the City concurs with the Auditor's recommendation and will proceed with establishing an ordinance to impose a payment in lieu of taxes (PILOT) on the utility. While not specifically authorized, these actions are*

clearly contemplated by the legislative body of the State of Missouri by reference in RSMo 393.297, section 2, and by definition in RSMo 393.298, definition (7). Additionally, the City reserves the right to allocate funds based upon administrative expenses incurred.

- B. *The City concurs with the Auditor's recommendation. A monthly profit and loss statement is prepared for the electric operations showing line item detail. An analysis of expenditures to budget is completed monthly. Beginning fiscal year 2006, this information is provided to both the City Council and City management on a monthly basis. As of the 2007 fiscal budget, new budget worksheets detailing projected monthly use by customer type, projected revenue, and projected costs are prepared with the preparation of the budget. These are kept with the budget planning documentation.*
- C. *While the City currently accounts for the electric and water departments' operational revenues and expenses in separate profit and loss statements, the City does not prepare separate balance sheets. The City concedes to the Auditor's recommendation and will pursue creating a separate water utility fund with the start of the fiscal year 2008.*

2.	Financial Condition and Budgets
-----------	--

The condition of the city's General Fund has been in decline in recent years, and the financial information provided to the City Council has not always accurately reflected the financial activity and condition of the city's funds. The information presented in the city's budgets and budget amendments has not always been reasonable nor included all required or necessary information.

- A. The financial condition of the city's General Fund has been in decline in recent years. As evidenced from information included in the city's audited financial statements, in every year from fiscal year 2001 through fiscal year 2005, expenditures exceeded revenues and net transfers in as follows:

	Year Ended September 30,				
	2005	2004	2003	2002	2001
Revenues	\$ 6,824,217	6,488,344	6,213,260	6,302,837	5,474,266
Expenditures					
Capital Outlay	(1,205,149)	(1,728,225)	(1,365,546)	(1,890,214)	(1,224,753)
Operating and Other	(7,520,815)	(7,077,003)	(8,253,654)	(6,101,821)	(5,508,990)
Net Transfers In	958,147	2,312,098	1,876,639	1,274,692	970,335
Revenues and Net Transfers In Over / (Under) Expenditures	\$ (943,600)	(4,786)	(1,529,301)	(414,506)	(289,142)

During this same period, available cash and investment balances of the General Fund decreased significantly from \$2.7 million in fiscal year 2001 to \$275,000 at the end of fiscal year 2005. Had various interfund transfers to the General Fund

not been made (including those previously discussed in MAR 1A.), the fund's financial situation would have been even worse.

The city cannot continue to expend monies in excess of its available resources. City officials should monitor the financial condition of the city and develop a long range plan which will allow the city to operate within the resources that are available. Many of the recommendations contained in this report, if implemented, will help the city establish procedures to better operate within its available resources.

It should be noted that in fiscal year 2006, the city took various measures to reduce its expenditures, including a reduction of capital expenditures in all departments and the elimination of several employees/positions. As a result, the financial condition of the city's General Fund improved during the most recently completed fiscal year. Based on unaudited fiscal year 2006 financial information, revenues and net transfers in exceeded expenditures in the General Fund by \$1.9 million and available cash and investment balances of that fund totaled approximately \$2.4 million at year-end.

- B. The financial information provided to the City Council did not always provide an accurate reflection of the financial activity and condition of the city's funds. For example, transactions for monthly power purchases of approximately \$1 million in fiscal year 2005 were not properly reflected as accrued in the accounting records. As a result, the City Council did not have accurate information regarding the financial activity and condition of the Utility Fund during the year nor the impact on other city funds.

The financial information provided to the council should properly reflect the financial activity and condition of all city funds. Without accurate financial information, the City Council cannot make informed decisions about the city's operations.

- C. City officials did not always ensure that information presented in the city's budgets and budget amendments was always reasonable. For example, a fiscal year 2005 budget amendment approved in July 2005 (ten months into the fiscal year) included a \$2 million transfer to the General Fund from the Utility Fund; however, this transfer did not subsequently occur due to operating difficulties experienced by the Utility Fund in that year. In another instance, a fiscal year 2005 budget amendment for the Capital Projects Fund did not include a budgeted expenditure for a loan repayment of approximately \$700,000 which had already been paid. Besides those budget amendments approved during the course of a fiscal year, the city routinely prepared budget amendments after the end of the fiscal year to authorize any budgetary overspending which had occurred during that year.

The budgets and budget amendments should include appropriate and reasonable revenue and expenditure estimations. In addition, Section 67.080, RSMo, provides that no expenditure of public monies shall be made unless it is authorized in the budget. The city should develop procedures to adequately monitor its annual budget, and formally amend the budget before any excess expenditures are incurred.

- D. The city's annual budgets did not always include all required or necessary information. For example, the fiscal year 2006 budget and budget amendment did not include beginning or projected ending balances of the various city funds. Without the projected ending balance in the fiscal year 2006 budget being included, a deficit budget was presented for the General Fund due to the proposed expenditures exceeding anticipated revenues.

Budgets are a planning tool and should serve as a guide throughout the year to monitor revenues and expenditures. In addition, the budgets should include beginning available and estimated ending balances for all funds to inform the council and the public regarding the anticipated financial condition of each fund.

WE RECOMMEND the City Council ensure:

- A. The financial condition of the city's General Fund is closely monitored and a long range plan is developed to help the city operate within its available resources. This would include considering various alternatives for reducing expenditures and/or increasing operating revenues.
- B. City officials provide financial information for its review and consideration that properly reflects the financial activity and condition of all city funds.
- C. The city's budgets and budget amendments include reasonable revenue and expenditure estimations. In addition, the city should adequately monitor the budget, and prepare budget amendments prior to incurring any excess expenditures.
- D. The city's budgets include all required and necessary information, including accurate beginning and projected ending balances for all city funds.

AUDITEE'S RESPONSE

- A. *The City concurs with the Auditor's recommendation.*
- B. *Prior to fiscal year 2006, the City Council was provided with summary financial statements on a monthly basis. As of fiscal year 2006, additions made to the Council's information included cash flow statements and detailed departmental profit and loss statements. The City Council will continue to monitor the financial information and financial condition of the city's funds.*

- C. *The City concurs with the Auditor's recommendation.*
- D. *The City concurs with the Auditor's recommendation and will ensure future budgets include the appropriate information.*

3. Expenditures

The city's procedures related to bidding, contracts, and supporting documentation for credit card expenditures are in need of improvement. In addition, some holiday gifts and other related expenditures do not appear to be a prudent use of public funds.

- A. The city's purchasing policy requires the city to obtain at least three written or oral bids for purchases between \$1,500 and \$10,000, obtain at least three written bids for purchases between \$10,000 and \$25,000, and obtain competitive sealed bids for purchases of more than \$25,000. The purchasing policy allows for exemptions for certain purchases, such as purchases from state contract and from a sole source provider, if the circumstances are documented. The city did not always solicit bids in accordance with its purchasing policy or did not retain documentation of doing so for various goods and services in fiscal year 2006, including the following:

<u>Expenditure</u>	<u>Amount</u>
Fuel	\$152,467
Sidewalk construction	3,134
Line (tree) clearing services	6,462
Equipment upgrades for 911 center	14,995

In addition, city policies also include a process for the solicitation of proposals and the selection of professional services. General engineering and architectural services costing \$21,554 were not procured in accordance with the established policy.

The city's bidding procedures 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. The city should ensure it follows its established purchasing policies and retain documentation to support that compliance. Any deviation from the established policy should be justified and thoroughly documented.

- B. The city did not enter into contracts for some services, when appropriate. For example, during fiscal year 2006, the city paid for legal services from the city counselor costing \$36,440 and planning services and mapping fees costing \$34,430 without the benefit of written agreements.

Section 432.070, RSMo, requires contracts of political subdivisions to be in writing. Contracts which fully stipulate the terms of the agreements, rights, and responsibilities of the parties are necessary to ensure the city is able to determine if services are being provided in accordance with expectations. Contracts should include, at a minimum, the products or services to be provided, time limitations or expectations, duties and responsibilities of all parties, remedial actions in the event of noncompliance, criteria for detail to be included in billings, and the dates or events upon which billings may be submitted.

- C. Adequate supporting documentation was not received or retained for some credit card purchases. The city has ten credit cards used by officials and employees for travel and other purposes, and such credit card expenditures totaled approximately \$15,000 for fiscal year 2006. In several instances, the only documentation available was a signed charge slip but no detailed invoice was provided. The city also did not have any documentation for some other credit card expenditures.

The city should require the users of the city credit cards to submit invoices or other documentation for all charges.

- D. In December 2005, the city purchased gift cards and gift certificates at a cost totaling \$13,000. Gift cards and gift certificates totaling \$100 were given to each of the city's full-time and regular part-time employees. In addition, the city paid \$1,000 for a catered Christmas dinner for its employees and officials. A substantial portion of the dinner's cost was offset by the Mayor and several council members electing not to be paid their monthly compensation in December 2005. Similar expenditures were also incurred by the city in December of other recent years, including December 2006.

The costs of gift cards, gift certificates, and catered dinners for city employees do not appear to be prudent uses of public funds. Gift cards 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, it does not appear appropriate for elected officials to forego their salaries that have been authorized by ordinance.

WE RECOMMEND the City Council:

- A. Ensure bids/proposals are solicited and complete documentation of the procurement process properly retained for goods purchased and services provided in accordance with the city's bidding policy. Any deviation from the established policy should be justified and thoroughly documented.
- B. Enter into contracts for goods and services when appropriate and ensure the contracts contain adequate details and protections for the city.

- C. Require adequate supporting documentation for all credit card charges prior to payment, such as detailed invoices.
- D. Ensure all city expenditures are a prudent use of public funds. This would include refraining from paying for gifts and other similar expenditures for employees.

AUDITEE'S RESPONSE

- A. *The City concurs with the Auditor's recommendation.*
- B. *The City concurs with the Auditor's recommendation and in the future will enter into written contracts for services as appropriate.*
- C. *The City concurs with the Auditor's recommendation.*
- D. *The City will ensure that in the future these items are counted as compensation and reported accordingly.*

4. Accounting Controls and Procedures
--

Improvement is needed in the Finance Department's controls and procedures related to bank reconciliations, outstanding checks, and receipts. Utility billing adjustments have not been adequately documented nor reviewed and approved on a periodic basis by management. In addition, records and procedures related to the handling of receipts in other city departments need to be improved.

- A. The Finance Department's controls and procedures related to bank reconciliations and outstanding checks need improvement as follows:

- 1. The bank reconciliation prepared for the payable account for August 2006 was not accurate because it included some outstanding checks that had actually been voided. At our request, the city determined that the current outstanding check list for this account included nine checks totaling about \$2,960 that had been previously voided in the city's financial accounting system. This problem had not been detected because previous city officials had adjusted the city's cash balances rather than investigate the difference and because procedures had not been established to resolve old outstanding checks as discussed in Part 2, below.

Accurate bank reconciliations should be prepared to ensure all monies have been properly deposited, accounting records are in agreement with the bank, and errors or discrepancies are detected and corrected timely.

- 2. The Finance Department has not established adequate procedures to follow-up and resolve old outstanding checks. As of August 2006, there

were 294 outstanding checks, totaling \$31,615, that were over a year old for the payable, payroll, and utility accounts, with some of these outstanding checks dating back to 1995.

Old outstanding checks create an additional and unnecessary record keeping burden. An attempt should be made to locate the payees of the old outstanding checks, and the checks should be reissued, if possible. If a payee cannot be located, various statutory provisions provide for the disposition of unclaimed monies. In addition, routine procedures should be established to investigate checks outstanding for a considerable period of time.

- B. The Finance Department collects receipts from other city departments and also receives monies that come in through the mail. While receipts slips are issued for the monies received from other departments, receipt slips are not issued for monies received through the mail.

Although mail receipts are recorded in the city's financial accounting system, this situation does not provide adequate accountability for these monies. To adequately account for all receipts and to ensure all receipts are deposited intact, receipt slips should be issued for all monies received.

- C. The Utility Office makes adjustments to electric, water, and sewer billings for various reasons, such as incorrect or invalid meter readings and water leaks. In fiscal year 2006, billing adjustments of this nature totaled over \$100,000. These adjustments are entered into the city's computerized billing system by the Utility Office and a list of the adjustments is generated each month.

During a review of some of these billing adjustments, we noted the employee who authorized the adjustment was usually not identified and the reason and supporting documentation for the adjustment was not always maintained. In addition, while city officials indicated the list of adjustments is obtained and scanned for unusual or significant items by management, the review and approval of the adjustments is not documented.

To ensure all billing adjustments are valid, the authorizing employee and reason for billing adjustments should be adequately documented. In addition, the periodic review and approval of all such billing adjustments by an appropriate management official should be documented.

- D. The Utility Office receives and processes over \$20 million annually related to the billing of city-provided utility services. The Utility Office's controls and procedures related to the handling of these monies need to be improved. The receipts collected and recorded by that office are not always deposited intact and the composition of receipts is not reconciled to deposits. In addition, city employees are allowed to cash personal checks from daily utility receipts.

Cashing personal checks from utility receipts reduces the accountability over the monies received. To ensure utility receipts are accounted for properly, all such receipts should be deposited intact and the composition of recorded receipts should be reconciled to deposits.

- E. The city's Public Works Department and Parks Department records and procedures related to receipts need improvement. The Public Works Department processes permit and utility deposits of approximately \$50,000 annually, which are transmitted to either the Finance Department or Utility Office depending on the type of receipt. The Parks Department processes pavilion rental fees, league monies, and other receipts of approximately \$29,000 annually, which are transmitted to the Finance Department. The following concerns were noted with the handling of receipts in these departments:

1. The city has not established adequate procedures to ensure all Public Works Department and Parks Department receipts are transmitted to the appropriate department. Neither management officials in those departments or other personnel not involved in the cash custody and record-keeping functions perform any independent review of the work performed by the employees who are responsible for handling and transmitting these monies.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. At a minimum, there should be an independent review of receipt activity to ensure all monies received by these departments are properly transmitted.

2. Public Works Department receipts are not being transmitted intact and on a timely basis and cannot be readily reconciled to the receipts listing maintained by that department. City officials indicated that permit monies are not transmitted until a permit is approved, which can result in significant delays in permit money being transmitted to the Finance Department or Utility Office. In addition, the receipts listing does not indicate the department the monies are transmitted to, making the reconciliation of receipts to monies transmitted even more difficult.

To adequately safeguard receipts and reduce the risk of loss, theft or misuse of funds, all receipts should be transmitted intact and on a timely basis. Additionally, recorded receipts should be reconciled to amounts transmitted on a periodic basis.

3. The receipts collected in the Parks Department are recorded in various ways, including on a department invoice, pavilion reservation list, pre-numbered receipt slips (when requested by the payor), or not recorded in

any department record. In addition, receipts are not reconciled to amounts transmitted to the Finance Department because recording receipts in so many different ways makes it difficult to perform such reconciliations.

To ensure the proper handling and safeguarding of Parks Department receipts, the number of ways to record receipts should be reduced, and all monies should be recorded immediately upon receipt (preferably in the pre-numbered receipt book). In addition, recorded receipts should be reconciled to amounts transmitted to the Finance Department on a periodic basis.

WE RECOMMEND the City Council ensure:

- A.1. The Finance Department prepares accurate bank reconciliations on a monthly basis which are reconciled to the city's accounting records. This would include ensuring that any outstanding checks or other reconciling items are presented accurately.
2. The Finance Department resolves the old outstanding checks, and establishes routine procedures to investigate any checks that have been outstanding for a considerable period of time.
- B. The Finance Department issue receipt slips for all monies received, including those monies received through the mail.
- C. The authorization and reason(s) for any billing adjustments are adequately documented by the Utility Office. In addition, the periodic review and approval of all such billing adjustments by an appropriate management official should be documented.
- D. The practice of cashing personal checks from utility receipts is discontinued. In addition, the Utility Office should reconcile the composition of receipts to deposits on a daily basis.
- E.1. Ensure an independent review of Public Works Department and Parks Department receipt activity is performed to ensure monies received in those departments are properly transmitted.
2. Ensure all Public Works Department receipts are transmitted intact and on a timely basis. In addition, recorded Public Works Department receipts should be reconciled to monies transmitted on a periodic basis.
3. Ensure all Parks Department receipts are recorded immediately upon receipt and are reconciled to amounts transmitted to the Finance Department. In addition, the number of methods in which Parks Department receipts are recorded should be reduced.

AUDITEE'S RESPONSE

- A. *The City will continue to prepare bank reconciliations for all accounts on a monthly basis. The City is in the process of evaluating each of the outstanding checks and moving them to unclaimed property. The City will ensure that, in the future, bank reconciliations will limit outstanding checks to those less than one year old.*
- B. *The City concurs with the Auditor's recommendation and has added issuing receipts on monies received through the mail to the previous procedure used by the City.*
- C. *The City concurs with the Auditor's recommendation. The City is in the process of implementing a new balance adjustment procedure, which includes a balance adjustment authorization form detailing the reason and backup information for the adjustment.*
- D. *The City concurs with the Auditor's recommendation. The practice of check cashing in the Utility Office has been discontinued and the reconciliation of receipt type to deposits is performed on a daily basis.*
- E. *The City concurs with the Auditor's recommendations and will review procedural changes necessary to implement such.*

5. Use of City Vehicles and Operating Costs
--

The city should revise its policies to address the issue of officials commuting in city vehicles and ensure any commuting use is properly reported as taxable income. In addition, the city does not maintain mileage/usage logs to account for the usage of its vehicle/equipment fleet nor has it established adequate procedures to ensure fuel purchases are reasonable and proper.

- A. According to policy, city vehicles are to be used only for city business and no vehicle is to be used for personal business unless permission is obtained from the City Administrator. However, various city employees, including the City Administrator and four department heads, are allowed to commute in city vehicles between city offices and their personal residences. The current policy does not specifically address the matter of commuting in city vehicles. In addition, the city has not reported the value of personal automobile (commuting) use in a city vehicle as compensation. Federal regulations require all employers to withhold payroll taxes and include the value of personal automobile (commuting) use in taxable income in most instances. The Internal Revenue Service (IRS) Code provides several methods to determine automobile commuting values.

The city should consider whether commuting in city vehicles is an appropriate use of resources and address this matter in its policies. In addition, if the city decides to allow this practice to continue, it should ensure that commuting use of city

vehicles is properly reported as taxable income and payroll taxes withheld for all applicable employees.

- B. The city currently owns approximately 100 vehicles and pieces of motorized equipment that are utilized by city employees in performing their duties and daily operations. The city does not maintain mileage/usage logs for any of these vehicles or pieces of equipment and had no other formal records to support the mileage/usage related to these items.

Without adequate mileage/usage logs, the city cannot effectively monitor that vehicles and equipment items are used only for official business, that fuel costs for vehicles are reasonable, and that fuel billings to the city represent legitimate and appropriate charges. Vehicle mileage/usage logs should include trip information (i.e., employee, dates used, beginning and ending odometer readings, destination, and purpose) and fuel costs. These logs should be reviewed by a supervisor to ensure vehicles are used only for city business and evaluate fuel costs.

- C. The city has not established adequate procedures to ensure vehicle fuel purchases are reasonable and proper. According to city records, the city expended over \$150,000 on gasoline and other fuels during fiscal year 2006. This fuel was initially purchased with gas purchasing cards, with the city being subsequently billed for the purchases monthly. Although the monthly billing statements are approved for payment, the city does not formally monitor the fuel purchases for reasonableness nor is it able to reconcile the fuel purchases to fuel usage since mileage/usage logs as discussed in Part B., above, are not maintained.

Effective procedures should be established to ensure fuel purchases are reasonable and proper, prevent paying vendors for improper billing amounts, and decrease the risk of theft or misuse of fuel occurring without being undetected.

WE RECOMMEND the City Council:

- A. Consider whether commuting in city vehicles is an appropriate use of resources and address this matter in its policies. If the council decides to allow this practice to continue, it should ensure commuting use in city vehicles is reported as taxable income and payroll taxes are withheld for the applicable employees.
- B&C. Ensure mileage/usage logs are maintained for all city vehicles and motorized equipment items. These records should be reviewed by appropriate supervisory employees and reconciled to the monthly fuel billings to help ensure fuel purchases being charged to the city are appropriate.

AUDITEE'S RESPONSE

- A. *The City concurs with the Auditor's recommendations.*

B&C. The City concurs with the Auditor's recommendations. Mileage logs for city-owned vehicles have been purchased and the use of these logs was implemented beginning January 2007.

6.

Financial Reporting and Audits

The city's published financial statements have not included receipt and expenditure information as required by statute and annual financial reports have not been submitted to the State Auditor's Office (SAO) timely, as required. In addition, the city's annual financial audits have not always been completed timely.

- A. The city has not published financial statements that comply with statutory requirements. The city has published semi-annual statements of the assets, liabilities, and fund equity for the various city funds along with the indebtedness of the city. While this is useful information, the published financial statements have not included a detailed statement of receipts and expenditures of city funds as required by statute.

Section 77.110, RSMo, requires the city council to publish a full and detailed statement of the receipts and expenditures and indebtedness of the city at the end of each fiscal year and six months after the end of each fiscal year in a newspaper of general circulation in the city.

After we brought this matter to the city's attention, the city published financial statements for the year ending September 30, 2006, that included receipt and expenditure information.

- B. The city has not submitted annual financial reports to the SAO in accordance with statutory requirements. The city's audited financial statements for fiscal year ended September 30, 2005, were not filed with the SAO until June 2006, and the city's audited financial statements for fiscal years 1997 through 2004 were all submitted at one time in March 2006.

Section 105.145, RSMo, requires the city to file an annual financial report with the SAO, and 15 CSR 40-3.030 provides that if a political subdivision is audited by a CPA firm, a copy of the audit report can be filed in lieu of a separate financial report. The annual financial report is to be filed within 4 months of the entity's fiscal year-end, but an audit report can be filed within 6 months of the entity's fiscal year-end.

- C. The city's annual financial statement audits have not always been completed timely and in accordance with city's long term bond covenants. Even though bond covenants of the various city bond issuances require the annual audit to be completed within 180 days after the end of the city's fiscal year, the audit for the

year ended September 30, 2003 was not completed and issued until January 2005, 16 months after the end of the fiscal year. The City Administrator indicated there were several reasons for the delay in the audit's completion, including difficulties in the preparation of financial statements due to the city changing its basis of accounting.

The city should ensure its independent audits are completed on a timely basis to comply with its bond covenants, better enable city officials to ascertain the financial condition of the city, and to ensure the propriety and accuracy of financial transactions.

The city's annual financial statement audits since fiscal year 2003 have been completed timely as required.

WE RECOMMEND the City Council:

- A. Ensure the city's published semiannual financial statements present all required financial information as provided by state law.
- B. Submit annual financial reports to the State Auditor's Office on a timely basis as required by state law and regulations.
- C. Ensure the city's independent financial statement audits are completed on a timely basis.

AUDITEE'S RESPONSE

A-C. The City concurs with the Auditor's recommendations.

7. Remittance of Taxes to Department of Revenue
--

The city incurred substantial interest and penalty charges as a result of not remitting certain taxes to the Missouri Department of Revenue (DOR) in a timely manner.

- A. The city withholds state payroll withholding taxes for employees which are subsequently remitted to the DOR. The city failed to remit the required state employee withholding taxes timely for various months from January 2004 through July 2005. As a result of not remitting these withholding taxes timely, the city was required to pay the state approximately \$30,000 in penalties and interest.
- B. The city collects sales tax on water and electric sales billed to city utility customers. Because of the amount of sales taxes collected, the city is required to remit weekly estimated sales tax payments to the DOR. The city failed to remit the required estimated sales tax payments for various months from July 2004

through September 2005. As a result of not remitting these estimated sales tax payments as required, the city was assessed and paid to the state almost \$9,500 in penalties.

Good business practices and state regulations require the city to make timely payments of employee tax withholdings and estimated sales tax collections to avoid unnecessary penalties and interest.

While the city was unable to determine the reason for these untimely payments, in fiscal year 2006, the city improved its procedures related to the timely remittance of employee withholding taxes and sales taxes to the state and no further penalty and interest charges were noted in that year.

WE RECOMMEND the City Council continue to ensure employee withholding taxes and estimated sales tax payments are remitted timely to the DOR to avoid paying unnecessary penalties and interest.

AUDITEE'S RESPONSE

The City concurs with the Auditor's recommendation.

8. Minutes and Ordinances

Improvement is needed in the procedures and documentation related to closed meetings of the council. In addition, the council minutes are not signed by the Mayor to attest to their accuracy and the salaries for officers and employees have not been established by ordinance as required.

- A. The handling and documentation related to matters discussed by the council in closed session could be improved. The council's open session minutes will routinely indicate the vote to close a meeting; however, the specific reason to go into closed session is not always documented. In addition, the council discussed a matter unrelated to the specific reason(s) cited for going into that closed session. In that situation, a personnel matter was discussed in a closed session even though personnel was not cited as a reason for going into closed session in the regular council minutes. Further, votes taken in closed session are not subsequently disclosed in open session as required.

The Sunshine Law, Chapter 610, RSMo, states the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session. In addition, the Sunshine 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. Also, the law requires certain votes taken in closed session to be disclosed in open session. The

minutes should provide sufficient details of discussions to demonstrate compliance with statutory provisions and support important decisions made.

- B. The council minutes are prepared and signed by the City Clerk; however, they are not signed by the Mayor. The minutes should be signed by the Mayor upon approval to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the council meetings.
- C. Salaries for officers and employees have not been established by ordinance as required by Section 107.030 of the city's codified ordinances. While the city establishes a budget ordinance each year which reflects total salaries approved by department, salaries are not shown individually in the budget.

Compensation rates set by ordinance document the approved salary amounts to be paid and reduce potential misunderstandings regarding the amount of pay each city officer and employee is to receive. In addition, ordinance hearings provide for public input and information concerning the salaries paid.

WE RECOMMEND the City Council:

- A. Ensure the reason(s) to close a session is documented in the open minutes and limit the discussions or business conducted in closed meetings to only those specific reasons cited to justify such a closed meeting. In addition, votes or decisions made in closed session should be properly reported in the open minutes when required.
- B. Ensure council minutes are properly signed by the Mayor or some other official to attest to their accuracy.
- C. Establish by ordinance the salaries or pay rates for all officials and employees.

AUDITEE'S RESPONSE

A&B. The City concurs with the Auditor's recommendations.

C. The City does not concur with the conclusion of the State Auditor that both City officials and employee's salaries should be adopted by ordinance with ordinance hearings. The City believes that by adoption via resolution of the pay plan for city employees, the necessary statutory requirements are met. However, the City will take into consideration the adoption of individual salaries by ordinance within the annual city budget.

9. Municipal Court and Related Matters

Municipal Court procedures related to segregation of duties, imposition of court costs and case dismissals, receipts, disbursements of court costs, and follow up on bonds held by

the court need improvement. The Police Department procedures related to traffic ticket accountability and bond receipt procedures also need improvement. The Municipal Court collects approximately \$400,000 annually in fines and court costs.

- A. The duties of receiving, recording, transmitting, and reconciling court receipts are not adequately segregated. The Court Clerk and one part-time clerk perform these duties. Although Finance Department officials compare the monies transmitted from the court to the court's computerized accounting system, the transmittals are not compared to the court's receipt ledger, the record of original entry.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and transmitting court monies from that of recording receipts. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review and reconciliations of the recorded receipts to amounts transmitted to the Finance Department.

- B. The amounts collected by the court do not always agree to the fine and cost schedule to be imposed for each offense. For example, instances were noted where the Municipal Judge ordered a fine amount different than the standard fine on the schedule. In these situations, the Municipal Judge indicated the fine and cost amounts to be paid on the case files, but did not initial or sign the case file to authorize these dispositions which differed from the fine and cost schedule. Also, for some offenses, the fine and cost schedule also does not agree with current court procedures. For example, the fine and cost schedule includes a reduced amount if the individual obtained valid license plates after the ticket was issued; however, the Court Clerk indicated this reduced charge is no longer being used. Further, the Court Clerk dismisses cases for failure to show proof of insurance if the defendant comes in before the court date and provides this documentation; however, these dismissals have not been approved by the Municipal Judge or Prosecuting Attorney.

The fine and cost schedule established by the judge should agree with current court procedures. When case dispositions differ from the standard fine and cost schedule, the Municipal Judge should sign the case file to indicate authorization of the recorded dispositions. In addition, the Municipal Judge or Prosecuting Attorney should sign all dismissed case files.

- C. The Municipal Court's controls and procedures related to receipts need improvement.
 - 1. The method of payment is not always noted on the receipt slip. As a result, the composition of receipt slips issued is not reconciled to the composition of amounts transmitted to the Finance Department. Court

personnel simply total the activity on the receipt ledger and agree the total to amounts transmitted.

The receipt slips should indicate the method of payment (i.e. cash, checks, or money orders) and the composition should be reconciled to amounts transmitted to the Finance Department.

2. Monies received are not always transmitted to the Finance Department in a timely manner. Monies are normally collected by the court each business day, but transmittals are normally made only once a week. For example, a transmittal made on May 6, 2006, included five working days' receipts, totaling approximately \$12,600, of which about \$5,900 was cash.

To adequately account for cash receipts and reduce the risk of loss or misuse of funds, monies should be transmitted on a timely basis, with the transmittals being more frequent if significant amounts of cash are collected.

- D. The state's portion of the Police Officer Standards and Training Commission (POSTC) fees have not been remitted to the state since September 1999. From September 1999 to July 2006, the municipal court collected \$11,098 in these fees which were turned over to the city and credited to the city's General Fund instead of being disbursed to the state in accordance with Section 488.5336, RSMo.

It appears this situation has been allowed to continue because current officials in the city's Finance Office were unaware that a portion of the POSTC fees were supposed to be paid to the state and the court was not checking to ensure the appropriate fees were being remitted to the state, as required. The city disbursed these fees to the state in September 2006, after we brought this matter to the attention of city officials.

- E. The municipal division has not implemented adequate procedures to follow up on bonds held for over one year. As of July 31, 2006, the municipal division was holding bond receipts for 51 cases totaling over \$9,700, which have been held in excess of one year. Approximately half of these cases originated prior to 2003, with one case dating as far back as 1993. For several of these cases, the bond should have been refunded to the defendant because court costs had already been paid on the case.

An attempt should be made to determine the proper disposition of these monies. A review should be made of any bonds posted by persons who failed to make the required court appearance to determine if the bonds should be forfeited and the monies paid over to the city treasury as provided by Section 479.210, RSMo. For those bonds which relate to closed cases, Sections 447.500 through 447.595, RSMo, which relate to unclaimed property, should be used to disburse these monies.

- F. The Police Department does not maintain adequate records to account for the numerical sequence for all traffic tickets issued. A listing is maintained for ticket books assigned to police officers, and a log is maintained which documents the ticket numbers issued, date issued, violator's name, charge, and court assignment. However, some ticket numbers assigned to officers were not listed on the ticket issuance log, and no one ensures all ticket numbers have been accounted for and listed on the log. One ticket we requested could not be located by the municipal court or the Police Department. In addition, the listing did not include all relevant or accurate information regarding the disposition of the ticket (i.e. that the ticket was voided or the court assignment).

Without a proper accounting of all traffic ticket numbers assigned and issued, neither the police department nor the court have adequate assurance that all tickets issued were forwarded to the court for processing.

- G. The Police Department's controls and procedures related to bond receipts need improvement as follows:

1. The city has not established procedures to ensure all bond receipts received by the Police Department are properly transmitted to the court. Neither the court nor police officials independent of the cash custody and record-keeping functions provide any supervision or review of the work performed by the Police Department employees who handle these monies.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurances that all transactions are accounted for properly and assets are adequately safeguarded. At a minimum, there should be an independent review of this activity to ensure all bond receipts are properly transmitted to the court.

2. The Police Department did not retain the bond receipt slips issued before November 2004. Retention of records is necessary to ensure the validity of transactions, provide an audit trail, and account for all monies received. In addition, Section 109.270, RSMo, provides that all records made or received by an official in the course of their public duties are public property and are not to be disposed of except as provided by law.

Court officials estimated the Police Department receives and transmits approximately one third of the bond receipts handled by the municipal court. Considering this, it is important the Police Department maintain adequate records and procedures related to these monies.

WE RECOMMEND the Municipal Court:

- A. Adequately segregate the duties of receiving, recording, and transmitting court monies, to the extent possible. If proper segregation of duties cannot be achieved, at a minimum, procedures for an adequate independent review of the recordkeeping functions should be established.
- B. Ensure the amounts collected are in agreement with the fine and cost schedule established by the judge. If the amount collected differs from the fine and cost schedule, the Municipal Judge should sign the case to indicate authorization of the case disposition. In addition, the Municipal Judge or Prosecuting Attorney should initial or sign all dismissed cases.
- C.1. Ensure the method of payment is recorded on the receipt slips and the composition of receipt slips is reconciled to transmittals.
 - 2. Transmit monies to the Finance Department on a timely basis.
- D. Work with the city to ensure the state's portion of POSTC fees is disbursed to the state periodically in accordance with the applicable statute.
- E. Follow up on all bonds held for more than one year, and dispose of bonds in accordance with state law. In addition, procedures should be established to routinely follow up on cash bonds remaining on hand over a specified period of time.
- F. Work with the Police Department to ensure records are maintained to account for the numerical sequence and disposition of all traffic tickets issued.
- G. Work with the Police Department to:
 - 1. Establish procedures to ensure all bond receipts received by the Police Department are properly transmitted to the court.
 - 2. Ensure records are retained to provide assurance that all transactions are valid and proper and provide an adequate audit trail.

AUDITEE'S RESPONSE

- A. *The Municipal Judge concurs. However, unless the city can provide additional personnel for the court, the city will need to have its Finance Department conduct independent reviews of the court's financial activities.*
- B. *The Municipal Judge and Court Clerk concur and indicated this recommendation has already been implemented.*

The city's Prosecuting Attorney indicated that as our Municipal Judge and he understand the law, it is legally mandatory that any citation for failure to maintain insurance be dismissed if the offender provides the court with proof of insurance; thus, the clerk "dismisses" the case not as an act of discretion or independent judgment, but as a requirement of the law. However, he agrees that a superior practice, to provide a "paper trail", would be for him, as prosecutor, to initial or sign all dismissals.

- C. The Municipal Judge and Court Clerk concur and indicated these recommendations have already been implemented.*
- D. The Municipal Judge and Court Clerk concur.*
- E. The Municipal Judge and Court Clerk concur and indicated this recommendation has already been implemented.*
- F-G. The Municipal Judge indicated he does not believe these problems relate to the responsibilities of the court; however, if the city wants the court to be involved in improving these conditions, the court would cooperate to the extent practical.*

The city concurs with these audit recommendations and the City Administrator indicated they are in the process of being implemented by the police department.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF FARMINGTON, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Farmington is located in St. Francois County. The city was incorporated in 1836 and is currently a third-class city. The population of the city in 2000 was 13,924.

The city government consists of a mayor and eight-member city council. The council members are elected for 2-year terms. The mayor is elected for a four-year term, presides over the city council, and votes only in the case of a tie. The Mayor, City Council, and other officials during the year ended September 30, 2006, are identified below. The Mayor is paid \$150 per month and City Council members \$100 per month. The compensation of these officials is established by ordinance.

<u>Mayor and City Council</u>	<u>Dates of Service During the Year Ended September 30, 2006</u>	
James H. Bullis, Interim Mayor (1)	August 2006 – September 2006	
Charles Rorex, Mayor (1)	October 2005 – August 2006	
L.J. Miller, Councilman (2)	April 2006 – September 2006	
James Kellogg, Councilman (2)	October 2005 – April 2006	
Larry Forsythe, Councilman	October 2005 – September 2006	
Russell Straughan, Councilman	October 2005 – September 2006	
David Coleman, Councilman (3)	April 2006 – September 2006	
David Holman, Councilman (3)	October 2005 – April 2006	
Darrel Holdman, Councilman (4)	April 2006 – September 2006	
James H. Bullis, Councilman (4)	October 2005 – April 2006	
Gloria Jean Roberts, Councilwoman	October 2005 – September 2006	
Clarann Harrington, Councilwoman	October 2005 – September 2006	
Ronald Perryman, Councilman (5)	April 2006 – September 2006	
Preston Scott Semar, Councilman (5)	October 2005 – April 2006	
		Compensation Paid for the Year Ended September 30, 2006
<u>Other Officials</u>	<u>Dates of Service During the Year Ended September 30, 2006</u>	
Gregory S. Beavers, City Administrator	October 2005 – September 2006	\$ 71,309
Jeffrey Blue, Public Works Director (6)	October 2005 – August 2006	60,432
Michelle Daniel, Finance Director	October 2005 – September 2006	42,994
Paula Cartee, City Clerk	October 2005 – September 2006	35,635

Ronald Sheppard, Electric Superintendent	October 2005 – September 2006	58,448
Richard Baker, Police Chief	October 2005 – September 2006	52,000
Phillip Johnson, Fire Chief	October 2005 – September 2006	42,370
Murray Norman, Parks and Recreation Director	October 2005 – September 2006	43,531
Ernest William Towler, Civic Center Director	October 2005 – September 2006	59,842
Karen Roman, Library Director	October 2005 – September 2006	34,798
Edward M. Pultz, Municipal Judge	October 2005 – September 2006	13,655
Kevan Karraker, City Attorney (Prosecutor) *	October 2005 – September 2006	17,945
Susie Miller, Municipal Court Clerk	October 2005 – September 2006	34,896

* Elected position

Supplemental payments for leave are not included in the amounts above. During fiscal year 2006, employees could receive regular pay for unused vacation time over 80 hours accrued. This policy was discontinued beginning in fiscal year 2007. Employees who accrue more than the maximum accrual for sick leave (640 hours) are paid for half of their sick leave.

- (1) Charles Rorex was recalled as Mayor in August 2006 pursuant to Sections 77.650 to 77.660, RSMo. During that month, James H. Bullis was appointed by the council to serve as Mayor until a new Mayor is elected in April 2007.
- (2) L.J. Miller was elected Councilman in April 2006, replacing James Kellogg.
- (3) David Coleman was elected Councilman in April 2006, replacing David Holman.
- (4) Darrel Holdman was elected Councilman in April 2006, replacing James H. Bullis.
- (5) Ronald Perryman was elected Councilman in April 2006, replacing Preston Scott Semar.
- (6) Jeffrey Blue resigned as the Public Works Director in August 2006. The city is currently not planning to find a replacement for this position.

In addition to the officials identified above, the city employed 119 full-time employees and 65 part-time employees on September 30, 2006.

Assessed valuations and tax rates for 2006 and 2005 were as follows:

ASSESSED VALUATIONS	2006	2005
Real estate	\$ 118,488,220	113,275,630
Personal property	35,922,580	33,134,850
Railroad and utility	1,661,506	1,670,693
Total	<u>\$ 156,072,306</u>	<u>148,081,173</u>

TAX RATES PER \$100 ASSESSED VALUATION

	Rate	Rate
General Fund	\$.4449	.4200
Debt service	.1179	.0600

TAX RATES PER \$1 OF RETAIL SALES

	Rate
General	\$.0100
Capital improvement	.0050

The capital improvement sales tax will expire in 2014.