



Susan Montee, CPA

Missouri State Auditor

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March 2007

City of Novinger, Missouri

Year Ended June 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 Novinger, Missouri.

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Many of the findings in this audit are similar to those included in our previous audit of the City of Novinger (Report No. 2000-84). Very little progress has been made to improve overall accountability over city resources.

For the year ended June 30, 2006 the city collected approximately \$91,450 for water, \$29,590 for sewer, and \$26,230 for trash services. The city does not compare or reconcile gallons of water purchased to gallons of water pumped from the city's water tower, and does not reconcile gallons of water pumped to gallons billed to customers. According to city records, the city purchased approximately 10,555,000 gallons of water, but only billed customers for approximately 8,000,000 gallons. In addition, the city does not maintain adequate records of water and sewer refundable meter deposits held in the Water and Sewer Funds. There is no complete list of deposits held by the city and the total amount of meter deposits from city residents cannot readily be determined.

The collector does not prepare a detailed annual report of collections and delinquent accounts for the board as required by state law. The collector does prepare a monthly report of collections, but it is not presented to the board for review. Without such a report, any errors or irregularities that might occur are likely to go undetected. As of June 30, 2006, the city had approximately \$3,350 in delinquent utility bills due from citizens no longer living within city limits.

The city's combined waterworks and sewerage system bond covenant requires that amounts be set aside into a Bond Reserve Fund and a Replacement and Extension Fund with the aggregate amount totaling \$16,000 for each fund. The city has two certificates of deposit designated as "Water and Sewer Bond Reserve"; however, at June 30, 2006, these certificates totaled only \$8,836. The city has not made any deposits to this fund during the current fiscal year. In addition, the city has not had annual audits of its water and sewer system as required.

The city does not have written contracts for accounting or legal services indicating the services to be provided at what amount. During the year ended June 30, 2006, the city paid approximately \$10,150 to the accounting firm and \$700 to the attorney. While the August 2005 minutes indicate that the attorney was hired at a rate of \$80 per hour, no formal written agreement was prepared.

The city does not have a formal written bidding policy. City officials indicate they frequently obtain proposals or quotes over the telephone. While the city board minutes

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YELLOW SHEET

showed some evidence of bidding for water tower repairs and accounting services, no documentation was maintained of the bid amounts or documents received, nor of the justification for selecting and rejecting the bids.

The city does not have a policy regarding the usage of credit cards and lines of credit. In addition, the city does not maintain mileage/usage or maintenance logs for vehicles and equipment owned by the city. Also, several payments were processed without an invoice or other adequate supporting documentation, including the purpose of the disbursement.

As noted in our prior audit report, the city received a restrictive donation of \$44,633. The monies were used for general operations of the city. As of June 30, 2000, \$31,133 and \$13,500 were due to the Garrison Fund from the General Fund and the Water Fund, respectively. As of June 30, 2006, the Garrison Fund Savings Account had a balance of \$3,225. Based on available documentation, as of June 30, 2006, the city needs to transfer \$27,908 from the General Revenue Fund and \$13,500 from the Water Fund into certificates of deposit in accordance with the provisions of the Garrison Estate. The city should review this situation with legal counsel to determine if there are other methods of handling this donation.

The city has not established a separate accounting for the motor vehicle related revenues to be used for street related purposes as required by the Missouri Constitution. The city deposits all motor vehicle-related revenues into the General Fund. For the year ended June 30, 2006, motor vehicle related revenues totaled approximately \$22,000.

A budget for the year ended June 30, 2006, was not prepared and adopted by ordinance as required. The city has not published semi-annual financial statements nor submitted an annual financial report to the State Auditor's office as required by state law.

Also included in the report are recommendations related to accounting controls and procedures, payroll, meeting minutes and ordinances, capital assets, volunteer fire association, water, sewerage and street maintenance plans, allocation of salaries and expenditures between funds, and administrative costs of trash services.

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CITY OF NOVINGER, MISSOURI

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STATE AUDITOR'S REPORT



**SUSAN MONTEE, CPA**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Board of Aldermen  
City of Novinger, Missouri 63559

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Novinger. The scope of our audit of the city included, but was not necessarily limited to, the year ended June 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 Novinger, 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: Debra S. Lewis, CPA  
In-Charge Auditor: Kate E. Petschonek, CPA

MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

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

<b>1. Water, Sewer, and Trash Services</b>
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The city does not compare or reconcile gallons of water purchased to the gallons of water pumped or billed to customers, or maintain adequate records of the water and sewer refundable meter deposits. In addition, the city does not transfer the required amounts into the Replacement and Extension Fund and Bond Reserve Fund or have annual audits of its water and sewer system. A detailed report of amounts collected and uncollected accounts is not prepared for the board's review. Also, the city has not retained documentation to support the costs associated with trash collections.

For the year ended June 30, 2006 the city collected approximately \$91,450 for water, \$29,590 for sewer and \$26,230 for trash services.

- A. The city does not compare or reconcile gallons of water purchased to gallons of water pumped from the city's water tower. In addition, the city does not reconcile gallons of water pumped from their water tower to gallons billed to customers. The city purchases its water supply from a public water supply district.

The city could not generate a report showing the gallons of water billed, however city officials were able to generate a report showing the gallons of water used over the water base of 1,000 gallons. (Customers are charged for at least 1,000 gallons of water each month, gallons used in excess of 1,000 are charged on a per gallon basis.) Assuming all the customers used at least 1,000 gallons of water each month, the total gallons of water billed was approximately 8,000,000 gallons. According to city records, the city purchased approximately 10,555,000 gallons of water. Therefore it appears the city billed customers 2,555,000 gallons or 24% less than what was purchased.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water purchased to the total gallons of water pumped and billed on a monthly basis and investigate any significant differences. The Public Service Commission generally recommends such differences be investigated if unbilled water usage exceeds 15 percent.

- B. The city does not maintain adequate records of water and sewer refundable meter deposits held in the Water and Sewer Funds. A ledger containing transactions of the utility billings from several years ago listed some meter deposits collected; however, the city no longer uses this ledger to track the transactions of the utility billings and therefore the deposits recorded in the book are not up to date. The City Collector indicated that she has kept records of the meter deposits collected

and refunded since she took office, but there is no complete list of the deposits held by the city. The city has over 200 utility customers and currently the meter deposits are \$150 for a renter and \$100 for a homeowner; however, due to the changes in the amount required for deposits over the years the total amount of meter deposits from city residents cannot readily be determined.

To ensure the city is properly holding water deposits from city customers, an accurate list of water deposits held by the city should be prepared, which includes the deposit amount and date received from each customer and the dates and amounts of all deposit refunds.

- C. The City Collector does not prepare a detailed annual report of collections and delinquent accounts for the board as required by state law. Section 79.310, RSMo and city Ordinance 13.590, require the city collector to make a detailed annual report to the board of amounts collected and to prepare a detailed list of persons who have not paid. The Board is to examine and approve the reports and charge the city collector to collect the delinquent amounts due.

The City Collector does prepare a monthly report of collections, which is used to determine the amounts that should be deposited into the Water and Sewer Accounts, but it is not presented to the board for review. A detailed annual report which complies with state law would help provide assurance utility bills have been properly collected, written off, or determined to be delinquent. Such a report would summarize utilities charged to customers, collections, and accounts delinquent. Without such a report, examined by the board, any errors or irregularities that might occur are likely to go undetected. As of June 30, 2006, the city had approximately \$3,350 in delinquent utility bills that city officials indicated are due from citizens no longer living within city limits. The Board should review the delinquent accounts to ensure that the customer's meter deposit has been applied to the account and consider writing off the remaining amount as uncollectible.

- D. The city's combined waterworks and sewerage system bond covenant requires that amounts be set aside into a Bond Reserve Fund and a Replacement and Extension Fund with the aggregate amount totaling \$16,000 for each fund. The city has two certificates of deposit designated as "Water and Sewer Bond Reserve"; however, at June 30, 2006, these certificates totaled only \$8,836. The city has not made any deposits to this fund during the current fiscal year. While the city does have several additional certificates of deposit, none of them were designated for the Replacement and Extension Fund.

To ensure the city has complied with the bond covenant restrictions, the city should deposit additional monies into the Bond Reserve Fund and the Replacement and Extension Fund until the amount has reached the required amount.

- E. The city has not had annual audits of its water and sewer system as required. The bond covenant and Section 250.150, RSMo, requires the city to obtain annual audits of the water and sewer system.

In addition to being required by state law and the city's bond covenants, annual audits of city funds would help ensure city financial transactions have been properly recorded.

- F. The city has not documented the administrative costs of providing trash collection services. Prior to June 2006, the city charged its residents a monthly fee of \$10.35 for trash collection. The city retained an administrative fee of \$.75 per customer in the General Fund and disbursed the remaining \$9.60 to the waste disposal company. (Currently the monthly fee is \$10.70 and the administrative fee is \$.80.) For the year ending June 30, 2006, the city received approximately \$1,855 in administrative fees.

The administrative costs of providing trash collection services should be calculated and documented. The user fee charged to city residents for trash services should be set at a level sufficient to cover the costs of the service and not used for general operations of the city.

Similar conditions were noted in a prior audit report.

**WE RECOMMEND** the Board of Aldermen:

- A. Reconcile gallons of water pumped to gallons of water billed to customers on a monthly basis and compare these amounts to gallons of water purchased. Any significant differences should be documented and investigated.
- B. Prepare accurate records of meter deposits held by the city.
- C. Require the City Collector to prepare a detailed annual report for presentation to the board. In addition, review the delinquent accounts to ensure that the customer's deposit has been applied and consider writing off the remaining amount as uncollectible.
- D. Deposit amounts into the Bond Reserve Fund and Replacement and Extension Fund to reach the amount required by the bond covenant.
- E. Obtain annual audits of the city as required by state law and bond covenants.
- F. Review the city's costs of administering the trash collection service and document the amount of administration costs associated with the service.

## **AUDITEE'S RESPONSE**

*The Board of Alderman indicated:*

- A. *The city has developed a system to reconcile gallons billed to the gallons purchased, and plan to implement this system after the next meter reading.*
- B. *The city has been working on the implementation of this recommendation. They will develop an ordinance to address when meter deposits should be refunded, etc., but they are having difficulty determining past deposits paid due to inadequate records.*
- C&F. *These recommendations will be implemented.*
- D. *They have designated additional CDs to the Bond Reserve Fund, so it is now at \$16,000, and will combine and designate some of the city's other CD's to bring the Replacement and Extension Fund to \$16,000.*
- E. *The City is currently seeking proposals for an audit.*

<b>2. Accounting Controls and Procedures</b>
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Monies collected by the city are not deposited on a timely basis, receipt slips issued are not prenumbered, the City Collector's report does not always include all monies received, and revenue classifications of the monies received are not always documented. In addition, some officials and employees do not appear to be adequately bonded, business licenses, city stickers and dog tags are not accounted for adequately, and the Treasurer's financial report to the board did not appear accurate and complete. Also, the numerical sequence of traffic tickets are not accounted for adequately.

- A. Monies collected by the city are not deposited on a timely basis. The Treasurer indicated deposits are generally made 2 or 3 times per month. A cash count conducted on December 8, 2006, included receipts collected from November 30 to December 7, 2006, totaling over \$9,600, including nearly \$500 in cash. Deposits should be made intact on a timely basis. Deposits should be more frequent if significant amounts of cash are collected.
- B. We noted the following concerns with city's receipting procedures:
  - 1. The city issues receipt slips for non utility related receipts. These receipt slips are not prenumbered or sequentially numbered. Without issuing and accounting for prenumbered receipt slips for all monies collected and then reconciling the receipt slips to the deposit, the city cannot ensure all monies collected are ultimately recorded and deposited.

2. The City Collector's monthly report of collections did not include some monies received. For example, during April and May 2006, the City Collector did not include a receipt of \$150 for a refundable meter deposit, \$250 for a utility bill and some receipts from dog tags and city stickers on her monthly report of collections; however, these monies were deposited. In addition, the City Collector's monthly report of collections is not reconciled to amounts transmitted to the City Treasurer for deposit. To ensure all receipts are recorded and ultimately deposited, the City Collector should ensure all monies collected are listed on her monthly report of collections and reconciled in amount and composition to the monies transmitted to the City Treasurer for deposit.
  3. The Treasurer did not indicate the revenue classification of some monies collected on the receipt slip or on the general ledger. To provide an adequate accounting of the receipts and to ensure the accuracy of the financial statements the Treasurer should indicate the revenue classification of the monies collected on the receipt slip and on the general ledger.
- C. Some city officials do not appear to be adequately bonded. City ordinance requires that each officer and employee of the city who will handle or have custody of money in the amount of \$100 or more at any one time shall give bond to the city. The ordinance also indicates that the treasurer shall be bonded at no less than \$3,000. While the treasurer is bonded for \$3,000, this does not appear adequate. As discussed in part A, cash counted on December 8, 2006 showed that the Treasurer held over \$9,600 in receipts (including \$500 in cash), which were mostly composed of utility monies. In addition, two maintenance workers, who also collect monies, and the mayor, who is an authorized check signer, are not insured/bonded. The waterworks and sewerage bond covenant requires that all employees who handle the funds and accounts of the city's combined waterworks and sewerage system be bonded at all times in an amount equal to the total funds in their possession or custody at any one time. Failure to properly bond city officials exposes the city to an unnecessary risk of loss.

To reduce the risk of loss, the city should base its bond coverage on the money an official or employee has access to at any one time, the cost of increased bond coverage, and the level of risk the Board of Aldermen is willing to assume.

- D. The city collects fees for business licenses, city stickers for vehicles, and dog tags. During the year ended June 30, 2006 the city collected approximately \$3,800 for these receipts. The following concerns were noted regarding these fees:
1. Business licenses and city stickers are not pre-numbered, and while dog tags are pre-numbered, the city does not properly account for the numerical sequence. To provide additional assurance all monies are properly collected, recorded, and deposited, licenses should be pre-numbered and the numerical sequence of the licenses, city stickers, and

dog tags should be accounted for properly. In addition, the receipt slips should be reconciled to the monies deposited and the number of licenses, city stickers, and dog tags issued to ensure all fees are being received, recorded, and deposited.

2. Several licenses were signed in advance by a prior city clerk and/or a prior mayor. Signing licenses in advance does not allow for proper review of documentation before a license is issued.
  3. The city does not have policies in place regarding delinquent licenses. To ensure all businesses are treated equitably, formal policies on delinquent licenses should be established, adopted by ordinance, and followed.
- E. The Treasurer prepares monthly financial reports for board approval, which include the check register for the prior month for the General, Water, and Sewer Funds and a summary of the total receipts, total disbursements, and ending balances of the three funds. However, the ending balance of the prior month, plus receipts and less disbursements did not agree to the ending balance for some months. In addition, the financial reports do not include the activity of the city's savings account and certificates of deposit. To properly account for all city financial resources, the monthly reports of financial information presented to the board should be complete and accurate and contain the financial activity of all city funds and bank accounts.
- F. The numerical sequence of traffic tickets issued is not adequately accounted for by the city. The city police officers issue traffic tickets which are then sent to the Fines Collection Center (FCC) in Jefferson City for collection. When payment is received the FCC issues a check to the city, and after 60 days uncollected tickets are forwarded to the Adair County Associate Court for prosecution. The city does not account for the sequence of tickets forwarded to the FCC, nor do they attempt to determine the disposition of the tickets. For year ended June 30, 2006 the city issued 70 tickets.

Without proper accounting of the numerical sequence, the city cannot be assured that all tickets issued by the Novinger Police Department are properly submitted for processing. A log listing each ticket number, the date issued, offense, and the violator's name would enable the city to ensure all tickets issued have been submitted to the FCC for processing or properly voided. In addition, to ensure the city receives all monies collected for tickets, records should be maintained to document the ultimate disposition of the tickets issued, and follow-up done on all old tickets.

Similar conditions to A, B.1., C, E and F were noted in a prior audit report.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure all receipts are deposited intact on a timely basis.
- B.1. Ensure pre-numbered receipt slips are issued for non utility related receipts, in addition, account for the numerical sequence and reconcile the receipt slips to the deposit.
  - 2. Ensure the City Collector's report includes all monies received by the City Collector. In addition, ensure the report agrees in amount and composition to the monies transmitted to the Treasurer.
  - 3. Ensure the revenue classification of the receipt is documented on the receipt slip and the general ledger.
- C. Obtain adequate bond coverage for all city officials with access to city funds.
- D.1. Require all licenses and city stickers to be pre-numbered and the numerical sequence accounted for properly. In addition, fees collected should be reconciled to the number of licenses, city stickers, and dog tags issued.
  - 2. Void all licenses that were signed in advance and ensure licenses are no longer signed in advance.
  - 3. Develop a formal, written policy for delinquent licenses to ensure that all merchants are treated equitably.
- E. Require the monthly financial reports presented to the board be complete and accurate and includes all funds and bank accounts held by the city.
- F. Ensure records are maintained to account for the numerical sequence and ultimate disposition of all traffic tickets issued.

**AUDITEE'S RESPONSE**

*The Board of Alderman indicated:*

A. *This recommendation has been implemented. The city is currently depositing 2 or 3 times per week.*

*B.1*

*&D.2. These recommendations have been implemented.*

*B.2*

*&B.3. These recommendations have been implemented. These problems occurred when the new officials first took office and were unsure of how to do things.*

C. *Everyone handling monies is now bonded and the Board will review the treasurer's bond to determine if additional coverage is needed.*

D.1,3,

&F. *These recommendations will be implemented.*

E. *This recommendation will be implemented and the report will include all items in the future.*

**3.**

### **Expenditures**

The city does not have written contracts for some services or for street repair, nor does it have formal written policies for bidding or for the usage of credit cards or credit lines. In addition, the city does not maintain mileage/usage or maintenance logs for the city's vehicles and equipment, several payments were made without adequate supporting documentation, and a signature indicating the receipt of goods or services was not always evident on the expenditure documentation.

A. The city does not have written contracts for accounting or legal services indicating the services to be provided at what amount. The city hired an accounting firm to prepare compilation reports for fiscal years 2001-2005 and to prepare the year end payroll reporting requirements and an attorney to provide legal services to the city. During the year ended June 30, 2006, the city paid approximately \$10,150 to the accounting firm and \$700 to the attorney. While the August 2005 minutes indicate that the attorney was hired at a rate of \$80 per hour, no formal written agreement was prepared.

Section 432.070, RSMo, requires contracts of political subdivisions be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

B. The city does not have a formal written bid policy. While city officials indicate they frequently obtain proposals or quotes over the telephone, documentation of the proposals is not maintained. During the year ended June 30, 2006, the city made the following purchases which should have been bid: \$6,388 for general liability insurance, \$3,650 for road maintenance, and \$13,500 for water tower repairs. In addition, the city did not request qualifications for accounting services which totaled approximately \$10,150. While the city board minutes showed some evidence of bidding for the water tower repairs and accounting services, no documentation was maintained of the bid amounts or documents received, nor of the justification for selecting and rejecting the bids.

Formal 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. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why a bid was selected.

- C. The city does not have a policy regarding the usage of the credit cards or lines of credit. The city has 2 store credit cards and 2 lines of credit with local vendors. During the year ended June 30, 2006, the city made payments totaling approximately \$1,830 for its credit cards and lines of credit. To reduce the risk of loss or misuse, a formal written policy should be established documenting procedures for usage of credit cards and lines of credit, and the employees authorized to make such purchases.
- D. The city does not maintain mileage/usage or maintenance logs for the vehicles and equipment owned by the city. The city owns seven vehicles and pieces of heavy equipment, and expended approximately \$3,910 in fuel costs during the year ending June 30, 2006. The city maintains a log showing the date and amount of fuel pumped into the vehicles or equipment; however, this log is not reconciled to the fuel purchased or reviewed for reasonableness.

Mileage/usage logs are necessary to document appropriate use of the vehicles and equipment and to support fuel charges. The mileage/usage and maintenance logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings (or hours of use for equipment), and the operation and maintenance costs. These logs should be reviewed by the Board of Aldermen to ensure vehicles and equipment are used only for city business, are being properly utilized, and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to fuel purchases and other maintenance costs.

- E. Several payments were processed without an invoice or other adequate supporting documentation, including the purpose of the disbursement. For example the city made a payment for accounting services based on a past due notice, and to an individual for street repairs (as noted in part G) without adequate documentation, i.e. invoice, or contract. Vendor invoices or other supporting documentation are necessary to ensure disbursements are for legitimate purposes. When the vendor invoices can not be located or are not provided, the City Clerk should request an invoice from the vendors and adequately document the purpose of the disbursement.
- F. A signature indicating receipt of goods or services was not always evident on expenditure documentation. For example, in two instances the city purchased rock for street repairs, totaling approximately \$4,000, in which the invoice did not

include an indication of the receipt of goods. As a result, the city does not always have adequate assurance it is paying for actual goods and services received and approved by the applicable party. Evidence of receipt of goods should be noted prior to payment.

- G. On at least two occasions, the city paid for a portion of the repairs for potholes on the asphalt street totaling approximately \$500. City officials indicated that the citizens and business, who reside on this city street, paid to have the street paved in the past and the city had been paying for a portion of any repairs to the street. However, nothing was documented in writing regarding this arrangement. The May 2006 minutes indicate the city will no longer pay for the asphalt repairs, instead they will pay the equivalent to repair a gravel road, which is \$50. All other city streets are gravel. There is no written agreement indicating the duties and responsibilities of each party. Formal written agreements are necessary to document each party's duties and responsibilities and to prevent misunderstandings.

Similar conditions to A, B, D, E and F were noted in a prior audit report.

**WE RECOMMEND** the Board of Aldermen:

- A. Enter into written agreements for all services.
- B. Establish formal bidding policies with provisions for documentation of the justification for selecting and rejecting bids, and maintain bid documentation on file.
- C. Develop a written credit card/line of credit policy to include the procedures for using the credit cards or lines of credit and the purchase authorization of employees.
- D. Maintain complete and accurate mileage/usage and maintenance logs for all vehicles and heavy equipment. The logs should be reviewed by a supervisor periodically for completeness and reasonableness.
- E. Ensure that invoices or other supporting documentation are maintained to support all city expenditures.
- F. Ensure evidence of receipt for the goods or services is noted on the invoice prior to payment.
- G. Enter into a written agreement regarding the responsibilities for the repairs to the paved street.

**AUDITEE’S RESPONSE**

*The Board of Alderman indicated:*

*A,B,  
C,D,  
F&G. These recommendations will be implemented.*

*E. This recommendation has been implemented.*

<b>4. Payroll</b>
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Time cards are not always signed by employees and their supervisors, and leave records are not maintained. In addition, payroll and accounting records are not properly reconciled with amounts reported to the state and federal authorities.

A. Time cards are not always signed by employees and their supervisors. Hourly employees use a time clock to record time worked. The City Clerk calculates the hours worked from the time cards and prepares the payroll. Times stamped on the time card by the time clock were sometimes manually changed without documentation regarding why the changes were made or who made the changes.

Without employee and supervisory review of time cards and a signature to indicate the review, there is no assurance that the time records are accurate. Time cards should be prepared by the employee, and approved by the applicable supervisor to provide additional assurance that all information recorded is accurate.

B. The city does not maintain leave records showing amounts earned, taken and the balances. Full time employees are allowed to accumulate 4 hours of sick leave each month for a maximum of 240 hours and 5 days per year of annual leave, which can not accumulate.

Leave records are necessary to provide assurance that leave policies are being followed.

A similar condition was noted in a prior audit report.

C. Payroll and accounting records are not properly reconciled with amounts reported on the IRS Forms W-2, W-3, and quarterly wage reports. The city uses an accounting program which includes a payroll module; however, the city prepares manual reports to determine the totals for wages and withholdings for each month, quarter, and year instead of generating reports from the accounting program. These reports included several errors, including wages incorrectly

entered and wages not included. As a result, some employees' wages were incorrectly reported and amendments for these forms had to be filed.

City officials should review their system and attempt to utilize the payroll reports that can be generated to ensure the amounts reported on the W-2, W-3, and quarterly wage reports are accurate and complete. In addition, these discrepancies could have been identified in a more timely manner if adequate reconciliations had been performed between payroll, accounting and bank records. The failure to reconcile payroll records increases the risk that errors or irregularities will occur and not be detected on a timely basis.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure time cards are signed by the employee and an applicable supervisor to show approval, and any changes to time cards are properly approved and documented.
- B. Ensure leave records are maintained to show amounts earned, taken, and balances.
- C. Ensure payroll and accounting records are reconciled with amounts reported to the state and federal authorities. If possible use the payroll reports that can be generated by the accounting program to prepare the amounts reported to the state and federal authorities.

**AUDITEE'S RESPONSE**

*The Board of Alderman indicated:*

- A. *This recommendation will be implemented. Most of this was done in the prior administration.*
- B. *This recommendation has been implemented.*
- C. *This recommendation will be implemented.*

**5.**

**Restricted Revenues**

As noted in our prior audit report dated 2000, the city did not spend donated proceeds in accordance with the donor's will and testament. In addition, the city has not established a separate accounting for the motor vehicle related revenues, and does not maintain proper documentation to support transfers between funds. Also, the city allocates the cost of some expenditures and salaries between various funds without adequate documentation.

- A. As noted in our prior audit report, dated 2000, the city received a donation of \$44,633. The donor's last will and testament required this money to be put in a certificate of deposit and the interest to be used for the Christmas tree lighting project, or some community project of general interest if the designated project should be completed or no longer of interest. The monies were not used in accordance with the last will and testament, but were used for general operations of the city. As of June 30, 2000, \$31,133 and \$13,500 was due to the Garrison Fund from the General Fund and the Water Fund, respectively. Since our prior report, the city has been making some monthly payments, of \$50 from the General Fund to a savings account to replenish these monies. As of June 30, 2006, the Garrison Fund Savings Account had a balance of \$3,225.

The city should review this situation with legal counsel to determine if there are other methods of handling this donation. Based on available documentation, as of June 30, 2006, the city needs to transfer \$27,908 from the General Revenue Fund and \$13,500 from the Water Fund into certificates of deposits in accordance with the provisions of the Garrison Estate, and the interest should be used on the city's Christmas tree lighting project or a community project of general interest in lieu thereof. In September 2006, the Board voted to raise the monthly payment to \$600 per month (to be transferred from the General, Water, and Sewer Funds equally) to the Garrison Fund. There is no documentation supporting why the city would need to transfer monies from the Sewer Fund.

- B. The city has not established a separate accounting for the motor vehicle related revenues. The city deposits all motor vehicle-related revenues into the General Fund. For the year ended June 30, 2006 motor vehicle related revenues totaled approximately \$22,000. The General Fund is used to pay the general expenses of the city including lighting, patrolling and repairing the streets. During the year ended June 30, 2006, the city spent approximately \$4,700 for gravel for street repairs. City records are not maintained in a manner to clearly indicate these restricted funds were utilized as required.

Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle related revenues apportioned by the state of Missouri be expended for street related purposes including policing and signing, lighting, and cleaning of roads and streets. The city should determine the amount received for motor vehicle related revenues and transfer the fees to a separate fund or maintain a separate accounting of the funds to ensure the fees are used in accordance with state law.

- C. The August 2006 fund transfers do not appear correct or adequately documented. Utility monies collected are deposited into the General Fund and then transferred into the Water and Sewer Funds, respectively, usually at the beginning of the next month. However the utility receipts for May, June and July of 2006 were not transferred until August 2006, and checks that were normally written from the Water and Sewer Funds, during that period, were written from the General Fund. The Treasurer indicated she calculated the amounts to be transferred from the

total Water and Sewer receipts, as reported by the City Collector, then subtracted the checks written from the General Fund for those funds. However, she did not maintain adequate documentation to support these amounts or her calculations. Total water receipts for April through July totaled \$27,531. The Treasurer paid water expenses from the General Fund of \$17,173, and then transferred \$6,830 to the Water Fund. Therefore, it appears \$3,528 is still owed to the Water Fund. Total sewer receipts for April through July totaled \$8,430. The Treasurer paid sewer expenses of \$10,017 from the General Fund and then transferred \$2,573 to the Sewer Fund. Therefore it appears the Sewer Fund owes the General Revenue Fund \$4,160.

To ensure that revenues are used for their intended purposes, the city should consider transferring the water and sewer receipts at the time of deposit of the initial collections in the General Fund. In addition, documentation to support transfers should be maintained.

- D. Adequate documentation is not maintained to support the allocation of some expenditures and salaries among the various funds. For example, the city split the cost of insurance, fuel, and loan payments for equipment equally among the General, Water, and Sewer Funds. In addition, the city collector's and maintenance workers' salaries are split between the Water and Sewer Funds, even though some general activities are performed by these officials/employees. Time is not adequately tracked to determine the time spent or equipment used on water, sewer or general activities.

Expenditures should be allocated to the various city funds based on actual usage/time or estimated usage/time based on historical data. In addition, allocation of expenses is necessary for the city to ensure the water and sewer rates are sufficient to cover the cost of providing the service without generating profits to subsidize other city services. Therefore, documentation and proper allocation of expenses is useful for both management and compliance.

Similar conditions to A, C and D were noted in a prior audit report.

**WE RECOMMEND** the Board of Aldermen:

- A. Review this situation with legal counsel to determine if there are other methods of handling this donation and make arrangements to transfer monies into certificates of deposit to adhere to any provisions.
- B. Ensure restricted funds are used only for their intended purposes.
- C. Transfer \$3,528 to the Water Fund from the General Fund and \$4,160 to the General Fund from the Sewer Fund. In addition, consider transferring the water and sewer receipts at the time of the initial deposit into the General Fund, and ensure documentation to support all transfers is maintained.

- D. Allocate expenditures and payroll to the various city funds based on actual usage/time or on estimated usage/time based on historical information.

**AUDITEE'S RESPONSE**

*The Board of Alderman indicated:*

- A. *The city will continue to make monthly payments and discontinue the payments from the Sewer Fund.*

*B&D. These recommendations will be implemented.*

- C. *The city will review the recommended transfers.*

<b>6. Meeting Minutes and Ordinances</b>
--

Board minutes are not consistently signed by the city clerk and a board member, and do not document reasons for closing meetings or how some items discussed in closed meeting complied with state law. In addition, a public hearing on the city's proposed tax rates has not been held, and city ordinances do not appear complete and up-to-date. The city does not have a formal policy regarding public access to city records.

- A. During our review of the Board's minutes, we noted the following concerns:
  - 1. Board minutes are not consistently signed by the city clerk as the preparer, nor are they signed by a board member to attest to their completeness and accuracy. Minutes should be signed by the board to show that the minutes have been reviewed and accurately reflect the discussions held and actions taken in the previous meeting.
  - 2. Reasons for closing meetings are not documented in the minutes of the open meeting. The board went into closed session twice during the period of March through July 2006. Open session minutes indicated the board voted to close the meetings, but the specific reason for closing the meeting was not documented. 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.
  - 3. The board conducted two closed meetings during the audit period; however, they did not document how some items discussed in closed session complied with state law, and decisions made during closed session were not disclosed in open session as required. Closed session meetings included discussions on updating the computer system, upgrading the water lines, providing records to the accounting firm to prepare the financial statements, and moving a trailer to use for storage.

Section 610.021, allows matters to be discussed in closed session only if they relate to certain specified subjects. Discussions in closed meetings should relate to the specific topics used to justify the meeting closure. In addition, the law requires certain votes taken in closed session to be disclosed in open session.

- B. The Board of Aldermen has not held public hearings on the city's proposed tax rates. The October 2005 and January 2006 minutes noted discussion regarding the temporary general tax rate but did not indicate whether a public hearing was held to set the general property tax levy.

Section 67.110, RSMo, requires each governing body to hold a least one public hearing prior to approval of the proposed tax rates at which citizens may be heard. This section also provides guidance on what information is to be included at the public hearing.

- C. City ordinances do not appear complete and up-to-date and there is no summary listing of ordinances passed and rescinded. The city has not adopted some ordinances required by state law and/or needed to govern the city.

1) City ordinances appear old and outdated. For example:

- The city has an ordinance establishing a municipal court and procedures for the court. However, the city has not had a municipal court for several years.
- The city has an ordinance requiring an application for utility service and a deposit of \$65 for water services. However, the city currently collects a \$100 deposit for a homeowner and \$150 for a renter.
- The city has an ordinance establishing the fire department and indicating that the fire chief is to be responsible to the mayor and board of aldermen; however the fire department appears to operate as a separate entity (see MAR 8).

Since ordinances represent the legislation passed by the Board of Aldermen to govern the city and its residents, it is important that the city's ordinances be maintained in a complete, well-organized, and up-to-date manner. An index of all ordinances passed and repealed by the city could help keep track of additions and changes made to the city ordinances.

- 2) The city has not adopted ordinances to address all issues required by state law, including current compensation of officials and employees, tax rates, and procedures for collecting delinquent utility accounts.

Sections 79.270 through 79.320, RSMo 2000, require the duties, powers, compensation, and terms of office of the city officials and employees be set by ordinance. Section 94.190.3 and 94.210, RSMo require the property tax rate be set annually by ordinance. Utility related policies should be set forth in ordinances to give the taxpayers information on how the city is to be governed.

- D. The city does not have a formal policy regarding public access to city records. City officials indicated that they do not charge the public for copies of the minutes or ordinances; however, for any other copies they charge \$.10 per page. A formal policy regarding access and obtaining copies of city records would establish guidelines for the city to make the records available to the public. This policy should establish a contact person, an address for mailing such requests, and a cost for providing copies of public records.

Section 610.023, RSMo, lists requirements for making city records available to the public. The Sunshine Law states the fees for copying public records shall not exceed ten cents per page, with the hourly fee for duplicating time not to exceed the average hourly rate of pay for clerical staff of the public governmental body. Research time may be charged at the actual cost of time required to fulfill records requests.

Similar conditions to A.1, C, and D were noted in a prior audit report.

**WE RECOMMEND** the Board of Aldermen:

- A.1. Ensure minutes are signed by the preparer and a board member to attest to their accuracy.
  2. Ensure the reason for closing a session is documented in the open minutes.
  3. Document how topics discussed in closed session comply with state law and ensure decisions made in closed session are properly reported in the open minutes when required.
- B. Hold public hearings on setting the annual tax levy as required by state law and record this information in the board minutes.
- C. Ensure the city's ordinances are maintained in a complete and up-to-date manner. New ordinances should be passed as needed and the board should ensure it operates in accordance with established ordinances.
- D. Develop written policies regarding procedures to obtain public access to, or copies of, public city records.

## **AUDITEE'S RESPONSE**

*The Board of Alderman indicated:*

A.1,2,

*&D. These recommendations have been implemented.*

A.3,B

*&C. These recommendations will be implemented.*

<b>7. Budgeting, Planning and Financial Reporting</b>
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A budget for the year ended June 30, 2006 was not prepared and adopted by ordinance as required. The city does not have a long term maintenance plan for its water and sewerage system or for the maintenance of its streets. In addition, the city has not published its semi-annual financial statements as required, or filed annual financial reports with the State Auditor's office on a timely basis.

A. A budget for the year ended June 30, 2006, was not prepared and subsequently adopted by ordinance as required. Section 67.010, RSMo, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year. While the city did prepare a budget for 2007, the budget did not include a budget message or comparisons of actual revenues and expenditures for the preceding two years as required. In addition, the board minutes did not document formal approval of the budget by the board and it was not adopted by ordinance. Also, the Board does not review any budget to actual reports.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations, and include the beginning available resources and a reasonable estimate of the ending available resources. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding years. In addition, the budget should be adopted by ordinance.

B. The city does not have a maintenance plan for its water and sewerage system. In addition, the city does not prepare an annual maintenance plan for city streets.

1) The city does not have a maintenance plan for its water and sewerage system. In February 2006, the city obtained a water system engineering report, evaluating the city's needs and possible solutions for achieving,

improving and/or maintaining the technical, managerial and financial capability to continue to provide safe drinking water and meet drinking water regulations. According to the Mayor, due to the costs involved, the city does not intend to implement the recommendations made in the report. According to the engineering report initial costs are estimated at \$284,000 for the first phase of the project. Instead the city is trying to replace the deteriorating pipes themselves as time and money allows.

- 2) The city does not prepare an annual maintenance plan for city streets. During the year ended June 30, 2006, the city spent approximately \$4,700 for gravel for repairs to city streets.

Formal maintenance plans should be prepared in conjunction with the annual fiscal budget and include a description of the work to be done on the waterworks and sewerage system and city streets, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, and other relevant information. The plans should be included in the budget message and be approved by the board. In addition, public hearings should be held to obtain input from the city residents.

A formal maintenance plan for the waterworks and sewerage system as well as for the streets would serve as a useful management tool and provide greater input into the overall budgeting process. A plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of the waterworks and sewerage system and streets throughout the year.

- C. The city has not published semi-annual financial statements as required by state law and city ordinance. City ordinance 13.400 requires the board of aldermen to publish their financial statements in July and January of each year. Section 79.160, RSMo, requires the board of aldermen to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six month period. In addition, Section 79.165, RSMo, states the city cannot legally disburse funds until the financial statement is published.
- D. The city did not submit an annual financial report to the State Auditor's office on a timely basis. The city filed financial statements, compiled by a CPA firm, for the years ended June 30, 2001 through 2005, on March 8, 2006, and the financial statement for the year ended June 30, 2006 had not been submitted as of December 31, 2006. Section 105.145, RSMo, requires the city to file an annual report of its financial transactions with the State Auditor's Office, and 15 CSR 40-3.030 requires unaudited reports to be filed with the State Auditor's office within four months of the end of the city's fiscal year.

Similar conditions to A, C and D were noted in a prior audit report.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure the Mayor prepares an annual budget that contains all information required by state law to provide a complete financial plan for the city, which should then be adopted by ordinance. In addition, require periodic budget to actual reports to be prepared for review by the board.
- B. Prepare an annual waterworks and sewerage system as well as a street maintenance plan as part of the budget.
- C. Publish semi-annual financial statements as required by state law.
- D. Submit annual reports of financial transactions to the State Auditor's Office on a timely basis as required by law.

**AUDITEE'S RESPONSE**

*The Board of Alderman indicated:*

- A. *This recommendation will be implemented with the next budget. The city is working on preparing budget to actual reports.*
- B. *The city is working on a water and sewer maintenance plan. They will also implement a maintenance plan for streets.*

*C&D. These recommendations will be implemented.*

<b>8. Capital Assets</b>
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The city has not established formal policies and procedures for capital assets, including procedures for an annual physical inventory. In addition, the city did not maintain property records to account for the capital assets owned by the city; however, upon our request the city maintenance supervisor prepared a listing but it did not indicate the values of the assets.

Adequate capital asset records are necessary to provide better internal controls over city property and provide a basis for proper financial reporting. Formal policies and procedures for the annual physical inventory are necessary to ensure all personnel understand the duties assigned to them.

To develop appropriate records and procedures for capital assets, the city needs to undertake a comprehensive review of all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The city should properly record all capital asset transactions and

ensure the accuracy of the recorded capital assets. Periodically, the city should take physical counts of its assets and compare to the detailed records.

A similar condition was noted in a prior audit report.

**WE RECOMMEND** the Board of Aldermen maintain property records for capital assets that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.

**AUDITEE'S RESPONSE**

*The Board of Alderman indicated this recommendation will be implemented.*

<b>9. Volunteer Fire Association</b>
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The relationship between the city and the Novinger Community Volunteer Fire Association is not clear, and there is no written agreement stating the duties and responsibilities of each entity. The Novinger Community Volunteer Fire Association registered as a not-for-profit agency on January 14, 1972. They provide fire protection to the citizens of the city of Novinger and the surrounding rural area. As discussed in MAR 5.C., the city's ordinances indicate that the fire chief is to be responsible to the mayor and board of aldermen; however, the volunteer fire association is governed by a board, who appoints the fire chief.

The present situation places the city and the volunteer fire association in the position of not knowing the relationship and corresponding requirements of each entity. The city needs to determine the relationship between the city and the fire department and may want to enter into a contract stating the duties and responsibilities of each entity.

**WE RECOMMEND** the Board of Alderman enter into a written agreement with the volunteer fire association stating the fire association's and the city's duties and responsibilities.

**AUDITEE'S RESPONSE**

*The Board of Alderman indicated this recommendation will be implemented.*

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

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

The city of Novinger is located in Adair County. The city was incorporated in 1904 and is currently a fourth-class city. The population of the city in 2000 was 534.

The city government consists of a mayor and a four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended June 30, 2006, are identified below. The Mayor and Board of Aldermen are paid \$5 per month. The compensation of these officials is not established by ordinance.

Mayor and Board of Aldermen	Dates of Service During the Year Ended June 30, 2006		
Floyd Ellsworth, Mayor (1)	April 2006 - June 2006		
Kibbie Broseghini, Mayor (2)	July 2005 - March 2006		
Sharon Salsberry, Alderwoman	April 2006 - June 2006		
John T. Brownell, Alderman	July 2005 - March 2006		
Karen Bernard, Alderwoman	April 2006 - June 2006		
Harvey Stewart, Alderman	July 2005 - March 2006		
Joyce Hurley, Alderwoman (3)	April 2006 - June 2006		
Brandon Broadwell, Alderman	July 2006 - March 2006		
Wayne Burriss, Alderman (4)	April 2006 - June 2006		
Floyd Ellsworth, Alderman	July 2005 - March 2006		
Other Officials	Dates of Service During the Year Ended June 30, 2006	Compensation Paid for the Year Ended June 30, 2006	
Carolyn Ray, Collector *	April 2006 - June 2006	\$	1,737
Sharon Broadwell Barnes, Collector *	July 2005 - April 2006		7,041
Janice Pearce, City Clerk (5)	April 2006 - June 2006	\$	450
Carolyn Ray, City Clerk	August 2005 - April 2006		1,050
Sally Embry, City Clerk	July 2005		0
Angela D. Gashwiler, Treasurer	April 2006 - June 2006		450
Irene Brownell, Treasurer	July 2005 - April 2006		1,350

\* Elected position

(1) In October 2006, Floyd Ellsworth resigned and Wayne Burriss was appointed to the position of Mayor.

- (2) In April 2006, Kibbie Broseghini resigned and Floyd Ellsworth was appointed to the position of Mayor.
- (3) In October 2006, John McFarland was appointed to take Joyce Hurley's former position of alderman.
- (4) In October 2006, Tim Cuculich was appointed to take Wayne Burriss's former position of alderman.
- (5) In October 2006, Janice Pearce resigned and Joyce Hurley was appointed City Clerk.

In addition to the officials identified above, the city employed 1 full-time employee and 4 part-time employees on June 30, 2006.

Assessed valuations and tax rates for 2006 were as follows:

**ASSESSED VALUATIONS**

Real estate	\$ 1,155,318
Personal property	616,942
Total	<u>\$ 1,772,260</u>

**TAX RATES PER \$100 ASSESSED VALUATION**

	<u>Rate</u>
General Fund	\$ 0.4599
General Fund-temporary	0.3500

The General Fund-temporary levy is an additional voter-approved levy which will expire after 2007.

The city registered \$246,700 of combined waterworks and sewerage system refunding and improvement revenue bonds with the GMAC Commerce Mortgage Corporation on May 17, 1977. The city makes monthly principal and interest payments until the bonds are paid off on January 1, 2012. At June 30, 2006, the principal balance was \$57,308 and the city had a total of \$8,836 in certificates of deposit for repair and replacement and bond reserve.

A summary of the city's financial activity for the year ended June 30, 2006, is presented below:

	General and Street Fund	Water Fund	Sewer Fund	Bond Reserve Fund	Garrison Fund	Total
Cash Balance, July 1	\$ 51,397	12,219	9,640	8,752	2,696	84,704
Receipts	107,686	78,141	23,894	84	529	210,334
Disbursements	85,054	81,203	23,091	0	0	189,345
Cash Balance, June 30	\$ <u>74,029</u>	<u>9,157</u>	<u>10,443</u>	<u>8,836</u>	<u>3,225</u>	<u>105,690</u>