



Susan Montee, CPA

Missouri State Auditor

June 2007

City of Puxico, Missouri

Year Ended June 30, 2006



Office Of
Missouri State Auditor
Susan Montee, CPA

June 2007

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

The City's General Fund had a cash balance of approximately \$38,950 at June 30, 2006. However, the true picture shows the balance, including the Fire and Police Departments and the Nutrition Center Fund, to be (\$166,326). As the balance of the General Fund was not sufficient to cover the negative balances of these funds, it appears the city is using monies from restricted funds for general operations.

There are various problems with the city's accounting controls and procedures. Monies collected are not deposited intact or reconciled to the composition of the various receipts issued, and the duties of cash custody and record keeping related to the water, sewer and trash services are not adequately segregated. The city did not obtain a current appraisal when some real property was purchased. In addition, the city used taxpayer monies for a Christmas party, employee Christmas presents and for flowers, figurines, and candy for city employees.

The city paid for fuel that the Marshal used in his personal vehicle, when transporting the K9 unit dog. The Marshal was not required to report mileage or actual vehicle expenses incurred for city business. In addition, vehicle usage and maintenance logs maintained by the Maintenance, Fire and Police Departments do not appear adequately detailed and are not reviewed by the Board for reasonableness or agreed to fuel purchases.

The city does not have a formal written bidding policy. The decision to solicit bids is made on an item-by-item basis. During the past years, bids were either not solicited or bid documentation was not retained for some items, including \$79,649 for a fire truck. Some bills were not properly approved and numerous payments were processed without an original invoice or adequate supporting documentation resulting in some duplicate payments. Additionally, the city does not have written contracts for some services.

Also included in the report are recommendations related to meetings, minutes, and ordinances, budget planning and financial reporting, trash collection fees, capital assets, and fire department volunteer payments.

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

YELLOW SHEET

CITY OF PUXICO, 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 Puxico, Missouri 63960

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Puxico, Missouri. 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 March 2007.

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 Puxico, 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: Steven J. Re', CPA

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

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

1. Financial Reporting

The City's General Fund does not truly reflect the financial condition of the city. At June 30, 2006, the city's General Fund had a cash balance of approximately \$38,950. However, the Fire and Police Departments, which are normally funded with the general revenues of the city; are budgeted and presented separately and have been operating with a deficit balance. The city does not budget to transfer monies from the General Fund to these areas, and no transfers are made. In addition, the Nutrition Center Fund has also been operating with a deficit balance. To obtain a true picture of the financial condition of the city, these funds must also be considered. At June 30, 2006, the fund balances were as follows:

| Fund | Year Ended June 30, | |
|-----------------------|---------------------|-----------|
| | 2006 | 2005 |
| General Fund | \$ 38,950 | \$ 38,288 |
| Fire Fund | (39,683) | (6,655) |
| Police Fund | (93,759) | (93,830) |
| Nutrition Center Fund | (71,834) | (69,925) |
| Total | (166,326) | (132,122) |

As noted in MAR 5A, the city deficit budgets for the Fire, Police, and Nutrition Center funds.

In addition, fund activities are not clearly related to bank activity. At June 30, 2006, the reconciled bank account balances did not agree to the cash balances reflected on the financial statements by fund. It appears monies for some items are paid from the general account but allocated to the various funds; however, these monies are not transferred among the bank accounts. City personnel indicated that their accounting firm will periodically instruct them to transfer amounts among the bank accounts to bring the books and accounts back into balance.

The balance of the General Fund was not sufficient to cover the negative balances of the Fire and Police funds. It appears the city is using monies from restricted funds, such as the Street, Water, and Industrial Development, for general operations of the city. No documentation could be provided indicating the city had any plans to bring these funds into balance or had noted the poor financial condition of the city.

Accounting for all general operations of the city in the General Fund would provide a more clear and concise summary of overall activities and the financial condition of the city. In addition, the Street Fund is restricted for the maintenance and repairs of the city's streets. Article IV, Section 30 of the Missouri Constitution, requires motor vehicle-

related receipts apportioned by the state of Missouri be expended for street related purposes only including constructing, repairing, policing, signing, lighting and cleaning of the roads and streets. Additionally, the utility funds are separate accounting entities designed to account for specific city activities. Utility revenues should be used to fund the operations of the respective utility services only. Rates for utility services should be set to cover the costs of producing and delivering services (including administrative costs), repaying bonds, and repairing and replacing infrastructure. These utility services should not generate profits to fund other services provided by the city.

WE RECOMMEND the Board of Aldermen consider combining the Fire and Police funds with the city's General Fund to more closely reflect general operations of the city and to ensure restricted funds are not used for general operations of the city. In addition, the Board should closely monitor the financial condition of the General, Fire, Police, and Nutrition Center funds, and develop a long-term plan to operate within available resources.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

It is the Board's understanding that the City's accounting firm has begun implementing the separation of the restricted funds from the general funds with the recent change to a cash basis form of accounting. This has put the Fire and Police Funds with the City's General Fund.

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| 2. Accounting Controls and Procedures |
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Monies collected are not deposited intact or reconciled to the composition of the various receipts issued, and the duties of cash custody and record keeping related to the water, sewer and trash services are not adequately segregated. The Collector/Court Clerk does not issue a receipt slip to the Marshal indicating the receipt of monies transmitted. The city did not obtain a current appraisal when some real property was purchased, and some disbursements do not appear to be necessary costs of operating the city. In addition, the city paid for fuel used in the Marshal's personal vehicle when transporting the K9 unit dog; however, they did not require him to account for the mileage driven for the city with this vehicle.

- A. Monies collected are not deposited intact or reconciled to the composition of the various receipts issued. The Collector withholds various amounts of cash from deposits to use as a change fund and substitutes checks received the following day to replace the cash withheld. In addition, she cashes some personal checks from cash on hand and holds deposits received for use of the city's community center and cash bonds required by the court until the rental/court date.

The method of payment is not indicated on property tax receipts. The Collector indicates the method of payment on her receipts report for utility payments and on the actual receipt slips issued for other types of monies collected; however, no one reconciles the composition of the amounts deposited to the composition of the receipts report/receipt slips.

Due to the procedures noted above, checks and cash deposited do not match the cash receipt reports where the utility transactions are recorded.

To adequately safeguard receipts and reduce the risk of loss, or misuse of funds, deposits should be made intact and all disbursements should be made by check. To ensure all receipts are deposited intact, the method of payment should be recorded on the receipt slips, and the composition of receipt slips should be reconciled to the composition of deposits. In addition, personnel checks should not be cashed and the change fund should be maintained at a constant amount.

- B. The duties of cash custody and record keeping related to water, sewer, and trash services are not adequately segregated. The City Collector performs all functions related to preparing the utility bills, receipting and recording utility payments and credit adjustments, depositing water and sewer receipts, monitoring accounts for delinquencies, and initiating shutoff orders. No independent review of the accounting records is performed.

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 receipting and depositing monies from that of preparing bills, recording payments and following up on delinquent accounts. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the accounting records.

- C. The Marshal collects fines and court costs when city hall is closed and issues a receipt slip to the payee. Monies are then transmitted to the Collector/Court Clerk for deposit. The Collector/Court Clerk also issues a receipt slip and mails a copy to each payee. No reconciliation is performed between receipts written by the Marshal and those written by the clerk.

To provide more assurance that all monies have been transmitted, a receipt slip should be issued to the Marshal for each transmittal of monies, with the total reconciled to receipts collected by the Marshal. Additionally, it would not seem necessary for another receipt to then be issued and sent to the payee by the clerk.

- D. In October 2006, the city purchased a building and land for the new nutrition center for \$172,500; however; the city did not obtain a current appraisal for the property. The appraisal obtained by the city from the previous owner indicated the property was valued for \$314,000 on March 14, 2004. There was no

documentation on how the city determined this property best fit the city's need, particularly considering the city committee for this project had researched and recommended a different property.

Good business practices require that major real estate purchases be formally and independently appraised to ensure a reasonable price is paid.

- E. The Marshal used his personal vehicle when transporting the K9 unit dog. The city paid for fuel that the Marshal used in his personal vehicle. The Marshal was not required to report mileage or actual vehicle expenses incurred for city business; therefore, the city has no assurance that the Marshal's gasoline expenses were entirely incurred for city business.

The city should require the Marshal to report all city-related expenses incurred on his personal vehicle to ensure all gasoline charges are reasonable, or consider reimbursing the Marshal for actual mileage incurred and discontinue paying for gasoline. In addition, those gasoline payments appear to be taxable compensation to the Marshal but are not reported on his W-2 forms. IRS regulations require travel and expense reimbursements be reported on the recipients' W-2 forms unless the recipients are required to report the related expenses to their employer.

- F. The city used taxpayer funds to purchase hams for Christmas presents for their employees and for a Christmas party, totaling approximately \$1,400. In addition, the city paid for flowers, figurines, and candy for city employees or other individuals, for illness or death, using taxpayer funds. The city also paid for a conference fee for an official's spouse.

These disbursements do not appear to be necessary costs of operating the city and are a questionable use of public funds. The city's residents have placed a fiduciary trust in their public officials to expend tax revenues and fees in a necessary and prudent manner.

WE RECOMMEND the Board of Aldermen:

- A. Ensure monies are deposited intact, and the composition of receipt slips is reconciled to the composition of deposits. In addition, the practice of cashing personal checks should be discontinued and the change fund should be maintained at a constant amount.
- B. Segregate the duties of receiving and depositing monies from that of preparing bills, recording payments and following up on delinquent accounts. If this is not possible, at a minimum, procedures for adequate independent reviews should be established.

- C. Require the Collector to issue prenumbered receipt slips for all monies transmitted from other officials, and to reconcile such amounts with receipts collected by the other officials.
- D. Obtain current independent appraisals for the purchase and sale of city property.
- E. Require the Marshal to report all city-related expenses incurred on his personal vehicle to ensure all gasoline charges are reasonable, or consider reimbursing the Marshal for actual mileage incurred and discontinue paying for gasoline.
- F. Ensure the disbursements of city monies are a necessary and prudent use of public funds.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

- A. *When the treasurer and collector make deposits they will itemize checks and cash, and ensure monies are deposited intact. The City will arrange with the bank to deposit this money in the appropriate accounts. The City will not cash personal checks and the collector will maintain a change fund of \$200 in order to make change.*
- B. *Since it is not feasible to segregate the duties, the treasurer will review all of the collector's deposits, payment records, monthly water collection statements, and delinquent accounts to verify correctness.*
- C. *The collector will issue pre-numbered receipt slips for all monies transmitted from other officials, and reconcile such amounts with receipts collected by the other officials.*
- D. *The City will obtain current independent appraisals for the purchase and sale of city property.*
- E. *If the Marshal or any other employee uses his personal vehicle, the City will only reimburse him or her for actual mileage incurred.*
- F. *They will ensure that all disbursements of City monies will be necessary and a prudent use of public funds.*

3.

Expenditures

Vehicle usage and maintenance logs are not adequately detailed, reviewed by the Board for reasonableness, or agreed to fuel purchases. The city does not have a formal bid policy or written contracts for some services. Some warrants were not properly approved, and numerous payments were processed without an original invoice or other adequate supporting documentation including the purpose of the disbursement. In

addition, invoices are not always marked paid or otherwise canceled upon payment and typically do not indicate the goods or services were received.

- A. Vehicle usage and maintenance logs maintained by the Maintenance, Fire and Police Departments do not appear adequately detailed and are not reviewed by the Board for reasonableness or agreed to fuel purchases. The Maintenance and Fire Departments submitted their logs for 2005 upon request; however, there has been no formal request for 2006. The City Marshal refused to submit the police logs to the Board. The logs showed only the beginning and ending mileage recorded for each day, with only occasional references to the purpose of a trip. Vehicle logs should contain the mileage driven daily, the purpose and destination of each trip, and fuel purchases or maintenance performed.

A review of fuel invoices for the Police Department showed variances in the number of gallons purchased and miles driven between fill-ups. The police department is supposed to indicate the odometer reading on each invoice; however, this information was not noted on several invoices reviewed. The miles per gallon, for those invoices with the odometer readings, varied from a high of 23 to a low of 8. For the year ending June 30, 2006, the city paid a total of approximately \$2,800 for the Police Department, \$2,100 for the Fire Department, and \$5,500 for the Maintenance Department for fuel and oil.

Usage and maintenance logs are necessary to document appropriate use of the vehicles and to support fuel charges. The usage and maintenance logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. These logs should be reviewed by a supervisor to ensure vehicles and equipment is used only for city business, and helps identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to fuel purchases and other maintenance invoices.

- B. The city does not have a formal written bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. The City Clerk indicated they frequently obtain proposals or quotes in writing or over the telephone. During the past years, bids were either not solicited or bid documentation was not retained for the following: \$6,873 for communication equipment, \$4,500 for a trailer, \$79,649 for a fire truck, \$2,100 for radios, and \$1,360 for boring holes.

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 the bid was selected. If the provider is a sole source therefore no other bids can be obtained it should also be documented.

- C. Some warrants were not properly approved. The City Clerk prepares a listing of warrants to be approved by the Mayor and the Board. The Mayor is authorized to approve the regular monthly bills, and signs off on the remaining bills after the Board meeting to indicate they have been properly approved by the Board. However, several warrants were not approved by the Mayor. City personnel indicated some of these were an oversight, and some the Mayor had refused to approve, but the Board had approved them. However, there was no documentation of the Board's approval.

In addition, as noted in various board minutes, some purchases made by department supervisors apparently did not have prior Board approval. In July 2006, the Fire Chief purchased 37 T-shirts for \$394, and in August 2006, an aldermen purchased a computer for the Fire Department costing \$647, without obtaining prior approval. Purchases should be reviewed and approved by the Board prior to the purchase to ensure that no unnecessary costs are incurred that are not budgeted.

To adequately document the Board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the board members to denote their approval, and retained with the official minutes. Failure to properly review all invoices and supporting documentation, and to document authorization, increases the possibility of inappropriate disbursements occurring.

- D. Numerous payments were processed without an original invoice or other adequate supporting documentation including the purpose of the disbursement. In addition, invoices are not always marked paid or otherwise canceled upon payment and typically do not indicate the goods or services were received. During the year ended June 30, 2006, some payments were made from past due invoices or monthly statements and the city made several duplicate payments to various vendors. The city subsequently received credit from the vendors for these duplicate payments after the vendor noted them.

Original invoices or other supporting documentation are necessary to ensure disbursements are for legitimate purposes. When original invoices can not be located, the City Clerk should request copies of the invoices from the vendors, rather than paying them from statements or the past due notices. Canceling invoices and all other supporting documentation reduces the likelihood of duplicate payments and requiring acknowledgement of receipt of goods and/or services prior to payment will ensure the city actually received all items.

- E. The city does not have written contracts for some services.
- The city currently pays the city attorney \$100 per hour for all services performed; however, there is no written contract.
 - The city does not have a written contract with the accounting firm hired to prepare the city's financial records. During the year ended June 30, 2006, the city paid the accounting firm approximately \$6,400 for accounting services. Also, the invoices from the accounting firm did not provide information as to the rate and the hours billed.
 - Several payments were made to a contractor for painting services on the city's Nutrition Center. The city obtained bids for this service, but did not enter into a written contract. Per the board minutes, the vendor later charged the city for an additional 36 hours of work not originally agreed upon for which the city paid \$720. The city had not entered into a formal contract with the vendor specifying the work to be performed and cost to be paid.
 - Advertising is sold for a law enforcement calendar by a local vendor. The city does not have a contract with the vendor for these fees or for the costs of printing the calendar. The funds from these sales are held by the vendor, who indicated they are used to pay for the costs of the calendar and the annual appreciation dinner for the city law enforcement officers. The vendor does not account for these monies to the city.

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. In addition, detailed invoices should be obtained from independent contractors to support the services provided and the payments made.

WE RECOMMEND the Board of Aldermen:

- A. Establish procedures for maintaining accurate and complete usage logs for all city owned vehicles and reconcile these logs to fuel purchased and to calculate, review and compare miles per gallon for reasonableness.
- B. Establish formal bidding policies with provisions for documentation of the justification for selecting and rejecting bids.
- C. Ensure all warrant lists are properly approved prior to payment, and all purchases are approved by the Board before the purchase is made.
- D. Ensure that invoices or other supporting documentation are maintained to support

all city expenditures. In addition, ensure invoices are marked paid and receipt of goods and/or services is indicated.

- E. Enter into written agreements for all services. In addition, ensure all invoices include adequate documentation to include the date service was provided and the rate charged. Ensure that all contracts properly stipulate the payment terms, and properly monitor all invoices to ensure all payments and credits are properly reflected.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

- A. *Procedures that are already in place for maintaining accurate logs will be reinforced. The City Clerk will reconcile these logs on a monthly basis and calculate miles per gallon.*
- B. *The City will contact Missouri Municipal League for a sample bidding policy and implement it.*
- C. *All warrants will be properly approved. The Board will advise all department heads to obtain prior approval before making any purchases.*
- D. *Corrective measures are already in place to ensure that supporting documentation is maintained to support all city expenditures. Invoices are attached to check stubs and are marked paid. Receipt of goods is indicated.*
- E. *The City agrees wholeheartedly that this needs to be done and the City will have contracts written for accounting services, legal services, and other services.*

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| 4. Meetings, Minutes, and Ordinances |
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The city does not document when agendas for board meetings are posted or how some items discussed in closed session complied with state law. Some decisions made in closed session were not subsequently disclosed in open session as required. City ordinances were not up-to-date and the city's policy regarding access to city records does not comply with state law.

- A. The city does not document when agendas for board meetings are posted. Board meetings are required to be posted within 24 hours of the meeting excluding weekends and holidays. There was no information available to determine when the agendas were posted.

The Sunshine Law, Chapter 610, RSMo , requires a posting of the time, date and place of each meeting along with a tentative agenda of the matters to be discussed. When it is necessary to hold a meeting on less than twenty-four hours' notice, the reason justifying the departure from the normal requirements should be stated in the minutes. Maintaining a complete file of the meeting notices and tentative agendas would allow the city to demonstrate compliance with the law.

- B. The city did not document how some items discussed in closed session complied with state law, and some decisions made in closed session were not subsequently disclosed in open session as required. Closed session meetings included discussions on advertising for the positions of City Treasurer and City Clerk, and an additional part-time position for the fire department. The decisions to hire employees, to give pay increases for some employees, and to accept employee resignations were not disclosed in open session as required.

Section 610.020, 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.

- C. City ordinances do not appear up-to-date. For example:

- City officials indicated that customers forfeit their water deposit if their account is unpaid after 180 days; however, the city ordinance regarding delinquent accounts does not specify this.
- City officials indicated fire fighters are paid a clothing allowance for each fire they fight; however, the city ordinance indicates the payment is for services rendered (see MAR 8).

Since ordinances represent legislation which has been passed by the Board to govern the city and its residents, it is important that the city's ordinances be maintained in a complete and up-to-date manner.

- D. The city has adopted a policy regarding public access to city records; however, the policy states that 25 cents is to be charged for each page copied and \$20 per hour for document search, which does not comply with state law.

Section 610.026, RSMo, indicates that the fees for copying public records shall not exceed ten cents per page for a paper copy not larger than nine by fourteen inches, with the hourly fee for duplicating time not to exceed the average hourly rate of pay for clerical staff of the public governmental body. The cost of copying information onto a disk shall only include staff time, which shall not exceed the average hourly rate of pay for staff of the public governmental body and if necessary the cost of the disk, tape, or other medium used for the duplication. This ordinance and policy should establish a person to contact and an address to mail requests for access to records.

WE RECOMMEND the Board of Aldermen:

- A. Ensure documentation is maintained to show notices of board meetings are posted in compliance with state law.
- B. 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.
- C. Ensure ordinances are complete and up-to-date.
- D. Ensure fees for record requests are charged in accordance with state law.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

- A. *The City Clerk will ensure that notices of board meetings are posted in compliance with state law.*
- B. *The City will comply with the Sunshine Law.*
- C. *Ordinances will be updated on a regular basis.*
- D. *Our charges for record requests are now in accordance with state law.*

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| 5. Budgets, Planning, and Financial Reporting |
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The Board approved deficit budgets for some funds and approved budget amendments after expenses were incurred. The city has not filed annual financial reports with the State Auditor's office since 2003. Revenues and expenses were inconsistently charged to general ledger accounts. In addition, the city does not have a long term maintenance plan for its water and sewerage system or for the maintenance of its streets.

- A. The Board approved deficit budgets for the following funds for the year ended June 30, 2006:

| | Fire Fund | Police Fund | Nutrition Center Fund |
|-------------------------|-------------|-------------|-----------------------|
| Beginning Balance | \$ (6,694) | (95,902) | (69,964) |
| Estimated receipts | 238,572 | 72,920 | 1,000 |
| Estimated disbursements | 271,473 | 78,750 | 3,018 |
| Ending Balance | \$ (39,595) | (101,732) | (71,982) |

The Board approved a budget amendment in June 2006 to agree budgeted revenues and expenditures to actual amounts. For example, Fire Fund revenues were increased \$174,372 and expenditures were increased \$206,873 due to a grant received. It appears the amendments were made for statutory compliance only and circumvented the intended use of the budget as a management tool. The Board receives a copy of the budgeted to actual financial statements for each month; however, there is no documentation in the minutes indicating they discussed the financial statements. Reviewing the financial statements each month provides the city with the information needed to make necessary decisions regarding expenditures and for monitoring the current financial condition of the city.

Section 67.010, RSMo, prohibits deficit budgeting. The budget process provides a means to allocate financial resources in advance. Failure to adhere to the expenditure limits imposed by the budgets weakens the effectiveness of this process. Section 67.040, RSMo 2000, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. Section 67.080, RSMo 2000, provides that no expenditure of public monies shall be made unless it is authorized in the budget. The Board of Aldermen should require that timely budget to actual comparisons are received and reviewed and budget amendments passed prior to approving expenditures.

- B. Annual financial reports have not been filed with the State Auditor's office since the fiscal year ended June 30, 2003. Section 105.145, RSMo, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's office.
- C. Invoices and revenues are inconsistently coded to general ledger accounts from year to year. For example:
- The purchase of water meters was recorded as repairs and maintenance in 2005 and materials and supplies in 2006.

- The purchase of gravel was recorded as materials and supplies in 2005 and repairs and maintenance in 2006.
- Franchise tax revenues were recorded as cable income in 2005.

Inconsistent coding of expenses and revenues can lead to misinterpretations when making yearly comparison and preparing the budget. The Board should establish procedures to ensure revenues and expenses are properly recorded to provide accurate financial statements.

- D. The city does not have a maintenance plan for its water and sewerage system. In addition, the city does not prepare a formal maintenance plan for city streets. A formal plan of repairs and improvements noting the most critical needs of the city is needed to support the expenditures made by the city. This plan is necessary to show whether financial resources are sufficient to meet the critical needs, to provide financial support for budget preparation and expenditures for street repairs, and to answer any questions raised by the public.

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.

WE RECOMMEND the Board of Aldermen:

- A. Ensure the city discontinues deficit budgeting. In addition, ensure budget amendments are made prior to incurring the actual expenditures.
- B. Submit annual reports of financial transactions to the State Auditor's office as required by state law.
- C. Establish procedures to ensure expenses and revenues are consistently recorded to the proper general ledger account.
- D. Prepare an annual waterworks and sewerage system as well as a street maintenance plan as part of the budget.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

- A. *With a clearer understanding of the problems incurred with deficit spending, the Board will make every effort to discontinue deficit spending. The budget will be amended prior to actual expenditures.*
- B. *The Board will send in the annual reports to the State Auditor's office as required by state law.*
- C. *Corrective measures have been taken to make sure that this is done.*
- D. *The Board and the Maintenance Supervisor will prepare sewer, water and maintenance plans as part of the budget.*

6.

Trash

The city has not documented the administrative costs of providing trash collection services. The city charges its residents a monthly fee of \$8.75 for trash collection. The city entered into a 2 year contract beginning in September 2005, which required payment of \$8 per customer to the waste disposal company the first year and \$8.25 the second year. As a result the city retained an administrative fee of \$.75 per customer per month in the General Fund the first year and currently retains \$.50 per customer. For the year ending June 30, 2006, the city received approximately \$2,210 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.

WE RECOMMEND the Board of Aldermen perform a cost study to ensure that the fees charged and collected from the customers are not in excess of the administrative cost.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

The Board will do a cost study to ensure that the fees charged for trash service are not excessive.

7.**Capital Assets**

The city has not established formal policies and procedures for capital assets, including procedures for an annual physical inventory. The city does maintain lists of property by various departments; however, these lists did not reflect the real property owned by the city or the historical cost and serial number for some assets. In addition, the assets were not tagged as property of the city. The city currently owns 13 buildings/structures and several vehicles.

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

WE RECOMMEND the Board of Aldermen establish 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 Aldermen indicated:

This process of updating inventories is now underway. The City does plan to use tag numbers to mark equipment. Upon completion of the updating, an annual physical inventory will be performed and will be performed annually thereafter.

8.**Fire Department**

The City is not properly accounting for its payments to the volunteer firemen. Volunteer firemen are paid \$10 for each fire they fight. City personnel indicated these payments were a clothing allowance; however, city ordinance 202.140 refers to this as "payment for value of services rendered by any authorized person for washing, cleaning, and greasing the fire truck(s), and all necessary labor on the fire apparatus so that the efficiency of the Department may be maintained fighting a fire". During the year ended June 30, 2006, the firemen were paid \$3,340.

The city does not require the volunteers to account for the reimbursement of the clothing allowance. Internal Revenue Service (IRS) regulations require that expenses not accounted for to the employer be considered gross income and subject to applicable withholdings and taxes. The city needs to require the volunteers to account for the payments received or treat the payments as wages subject to withholdings and taxes.

WE RECOMMEND the Board of Aldermen require the volunteer firemen to account for the payments received or treat the payments as wages, subject to applicable withholdings and taxes.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

The Board is considering all options and will need to do some research before making a decision.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

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

The city of Puxico is located in Stoddard County. The city was incorporated in 1884 and is currently a fourth-class city. The population of the city in 2000 was 1,145.

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 is paid \$332 per month and Board of Aldermen are paid \$79 per month. The compensation of these officials is established by ordinance.

| <u>Mayor and Board of Aldermen</u> | <u>Dates of Service During the Year Ended June 30, 2006</u> | | |
|------------------------------------|---|----|---|
| Ruth Temple, Mayor (1) | July 2005 – June 2006 | | |
| S.L. Cates, Alderman (2) | July 2005 – June 2006 | | |
| Doyle Mitchell, Alderman (3) | July 2005 - June 2006 | | |
| Peter Coutavas, Alderman | April 2006 – June 2006 | | |
| Judy Cookson, Alderwoman | July 2005 – March 2006 | | |
| Barbara Stoops, Alderwoman | April 2006 – June 2006 | | |
| Gary Zoll, Alderman (4) | October 2005- December 2005 | | |
| Ancel Cookson, Alderman (5) | July 2005 – August 2005 | | |
| | | | |
| <u>Other Officials</u> | <u>Dates of Service During the Year Ended June 30, 2006</u> | | <u>Compensation Paid for the Year Ended June 30, 2006</u> |
| Patty Cooper, Collector * | July 2005 – June 2006 | \$ | 16,707 |
| John Clark, Marshal * | July 2005 – June 2006 | | 25,000 |
| Alice Patrick, City Clerk (6) | June 2006 | | 689 |
| Madeline Wilhelm, City Clerk (6) | July 2005 - June 2006 | | 8,978 |
| Donna Gilmore, Treasurer (7) | June 2006 | | 175 |
| Sheila Bruton, Treasurer (7) | July 2005 - June 2006 | | 10,556 |
| David DeVaughn, Municipal Judge | July 2005 – June 2006 | | 3,651 |

* Elected position

- (1) In April 2007 Alderman Doyle Mitchell was elected Mayor.
- (2) In April 2007 Alice Wilfong was elected Alderwoman.
- (3) In April 2007 Harlan Lamb was elected Alderman.
- (4) In December 2005, Gary Zoll resigned. No one was appointed to complete the remaining 3 months of the term.
- (5) Ancel Cookson resigned in August 2005 and Gary Zoll was appointed to the position of Alderman in October.
- (6) In June 2006, Madeline Wilhelm retired and Alice Patrick was appointed City Clerk.
- (7) In June 2006, Sheila Bruton resigned and Donna Gilmore was appointed City Treasurer.

In addition to the officials identified above, the city employed 5 full-time employees and 6 part-time employees on June 30, 2006.

Assessed valuations and tax rates for 2006 were as follows:

ASSESSED VALUATIONS

| | | |
|-------------------|----|------------------|
| Real estate | \$ | 4,460,260 |
| Personal property | | <u>1,793,020</u> |
| Total | \$ | <u>6,253,280</u> |

TAX RATES PER \$100 ASSESSED VALUATION

| | | <u>Rate</u> |
|--------------------|----|-------------|
| General Fund | \$ | 0.4948 |
| Parks & Recreation | | 0.2120 |
| Library | | 0.0707 |
| Health | | 0.1009 |
| Cemetery | | 0.1009 |

TAX RATE(S) PER \$1 OF RETAIL SALES

| | | <u>Rate</u> |
|---------|----|-------------|
| General | \$ | 0.0100 |

The city registered \$65,000 of combined waterworks and sewerage system refunding and improvement revenue bonds (series 2002A). The series 2002A bond issue requires interest only payments of approximately \$1,833 every 6 months until January 1, 2025 when the first principal payment of \$30,000 is due. The final principal payment of \$35,000 is due January 1, 2026. The current principal balance as of June 30, 2006 was \$65,000.

The city registered \$540,000 of combined waterworks and sewerage system refunding and improvement revenue bonds (series 2002B) on November 1, 2002. The city makes annual principal and interest payments of \$32,889 on the series 2002B until the bonds are paid off on July 1, 2023. The current principal balance as of June 30, 2006 is \$500,000.

The city had a total of \$16,182 in the Bond Reserve Fund.

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

| | | | | | | Sewer Operations and Maintenance | Park | Library | Police | Other | Total |
|---------------------------|-----------|---------|----------|--------|---------|---|--------|---------|--------|----------|---------|
| | General | Water | Cemetery | Street | Fire | | | | | | |
| | Fund | Fund * | Fund | Fund | Fund | Fund | Fund | Fund | Fund | Funds ** | |
| Receipts: | | | | | | | | | | | |
| Property taxes | \$ 37,072 | 0 | 4,207 | 0 | 0 | 0 | 12,537 | 4,530 | 0 | 0 | 58,346 |
| Franchise tax | 45,818 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 757 | 0 | 46,575 |
| Licenses | 2,339 | 0 | 0 | 1,840 | 0 | 0 | 0 | 0 | 0 | 0 | 4,179 |
| Sales taxes | 2,158 | 600 | 0 | 21,576 | 11,002 | 0 | 6,479 | 5,194 | 61,463 | 7,280 | 115,752 |
| Police fines | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7,139 | 0 | 7,139 |
| Interest income | 5,498 | 20 | 0 | 20 | 10 | 567 | 6 | 2,104 | 56 | 2,295 | 10,576 |
| Penalties | 389 | 5,846 | 47 | 0 | 0 | 832 | 136 | 50 | 0 | 0 | 7,300 |
| Rental income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 420 | 420 |
| Motor vehicle tax | 0 | 0 | 0 | 46,977 | 0 | 0 | 0 | 0 | 0 | 0 | 46,977 |
| Water income | 0 | 103,107 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 103,107 |
| Trash collections | 0 | 35,510 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 35,510 |
| Miscellaneous | 821 | 4,026 | 121 | 200 | 344 | 49 | 71 | 49 | 15 | 2,159 | 7,855 |
| Book fines | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 200 | 0 | 0 | 200 |
| Cemetery plot sales | 0 | 0 | 5,350 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,350 |
| Sewer income | 0 | 0 | 0 | 0 | 0 | 32,402 | 0 | 0 | 0 | 0 | 32,402 |
| Sewer tap fees | 0 | 0 | 0 | 0 | 0 | 260 | 0 | 0 | 0 | 0 | 260 |
| Sales of assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 45,211 | 45,211 |
| Meter charges | 0 | 1,450 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,450 |
| Court costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 468 | 0 | 468 |
| Law enforcement | | | | | | | | | | | |
| training fee | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 617 | 0 | 617 |
| Contributions | 0 | 0 | 2,081 | 0 | 1,378 | 0 | 0 | 1,431 | 20 | 1,000 | 5,910 |
| Fire calls | 0 | 0 | 0 | 0 | 500 | 0 | 0 | 0 | 0 | 0 | 500 |
| Rural fire revenues | 0 | 0 | 0 | 0 | 17,290 | 0 | 0 | 0 | 0 | 0 | 17,290 |
| Cable video | 1,704 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,704 |
| Grant income-Fire | 0 | 0 | 0 | 0 | 207,404 | 0 | 0 | 0 | 0 | 0 | 207,404 |
| Grant income-Other | 0 | 300 | 0 | 0 | 0 | 0 | 2,608 | 30 | 6,894 | 0 | 9,832 |
| State Library Aid | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 475 | 0 | 0 | 475 |
| Notes receivable payments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,542 | 4,542 |
| Canine income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 475 | 0 | 475 |
| Total receipts | 95,799 | 150,859 | 11,806 | 70,613 | 237,928 | 34,110 | 21,837 | 14,063 | 77,904 | 62,907 | 777,826 |

Disbursements

| | | | | | | | | | | | |
|-------------------------------------|---------|---------|---------|---------|----------|---------|---------|---------|----------|---------|---------|
| Salaries | 41,439 | 23,656 | 3,548 | 8,578 | 3,000 | 11,828 | 3,548 | 7,629 | 53,828 | 0 | 157,054 |
| Payroll expenses | 3,133 | 1,840 | 271 | 635 | 230 | 905 | 271 | 592 | 4,118 | 0 | 11,995 |
| Utilities | 7,943 | 8,043 | 0 | 10,153 | 0 | 4,476 | 953 | 2,394 | 4,430 | 1,057 | 39,449 |
| Materials and supplies | 5,352 | 10,895 | 4,407 | 3,187 | 5,495 | 1,253 | 2,826 | 1,660 | 1,064 | 908 | 37,047 |
| Postage and freight | 1,154 | 1,251 | 0 | 0 | 548 | 0 | 0 | 0 | 0 | 0 | 2,953 |
| Gas and oil | 458 | 175 | 740 | 3,893 | 2,099 | 157 | 568 | 0 | 2,832 | 0 | 10,922 |
| Repair and maintenance | 1,832 | 2,324 | 1,352 | 3,798 | 2,373 | 1,636 | 1,598 | 2,125 | 767 | 1,413 | 19,218 |
| Legal fees | 865 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,305 | 0 | 2,170 |
| Accounting and auditing | 9,151 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 9,151 |
| Insurance and bonding | 19,898 | 1,385 | 491 | 1,326 | 227 | 547 | 492 | 1,371 | 3,434 | 831 | 30,002 |
| Trash removal | 0 | 31,192 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 31,192 |
| Advertising | 1,278 | 0 | 0 | 0 | 254 | 0 | 0 | 16 | 0 | 0 | 1,548 |
| Dues and assessments | 1,857 | 1,651 | 0 | 0 | 0 | 0 | 0 | 316 | 1,614 | 0 | 5,438 |
| Rent expense | 813 | 364 | 364 | 364 | 36 | 329 | 329 | 38 | 0 | 0 | 2,637 |
| Misellaneous | 2,011 | 3,231 | 262 | 0 | 251 | 0 | 0 | 20 | 248 | 0 | 6,023 |
| Lab test | 0 | 0 | 0 | 0 | 0 | 843 | 0 | 0 | 0 | 0 | 843 |
| Interest expense | 0 | 38,780 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,852 | 40,632 |
| Travel expense | 0 | 385 | 0 | 0 | 101 | 0 | 0 | 0 | 0 | 0 | 486 |
| Training | 0 | 165 | 0 | 0 | 245 | 495 | 0 | 28 | 1,754 | 0 | 2,687 |
| Labor | 0 | 0 | 0 | 0 | 3,340 | 0 | 0 | 0 | 0 | 0 | 3,340 |
| Equipment purchases | 1,320 | 986 | 1,406 | 986 | 3,000 | 986 | 3,048 | 234 | 0 | 0 | 11,966 |
| Lease purchase agreement | 0 | 0 | 0 | 0 | 10,112 | 0 | 0 | 0 | 0 | 0 | 10,112 |
| Grant expense | 0 | 0 | 0 | 0 | 239,645 | 0 | 0 | 350 | 2,100 | 1,670 | 243,765 |
| Canine expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 279 | 0 | 279 |
| Bond principal payments | 0 | 15,060 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15,060 |
| Note principal payments | 0 | 647 | 141 | 113 | 0 | 0 | 0 | 0 | 0 | 0 | 901 |
| Total disbursements | 98,504 | 142,030 | 12,982 | 33,033 | 270,956 | 23,455 | 13,633 | 16,773 | 77,773 | 7,731 | 696,870 |
| Receipts over (under) disbursements | (2,705) | 8,829 | (1,176) | 37,580 | (33,028) | 10,655 | 8,204 | (2,710) | 131 | 55,176 | 80,956 |
| Transfers | 3,367 | (8,497) | (296) | (11) | 0 | (4,885) | (3,136) | 897 | (60) | 9,301 | (3,320) |
| Beginning Balance July 1 | 38,288 | 171,956 | 11,621 | 159,482 | (6,655) | 3,898 | 31,980 | 50,624 | (93,830) | 153,647 | 521,011 |
| Ending Balance June 30 \$ | 38,950 | 172,288 | 10,149 | 197,051 | (39,683) | 9,668 | 37,048 | 48,811 | (93,759) | 218,124 | 598,647 |

* Includes the UMB Bond Reserve Fund

** Includes the Industrial Development Fund, the Nutrition Center Fund, the Wastewater Bond Fund, the Principal and Interest Fund, the Bond Reserve Fund, the Depreciation and Replacement Fund, and the Economic Development Fund.