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Missouri State Auditor

City of Bunceton



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CITIZENS SUMMARY

Findings in the audit of the City of Bunceton

Accounting Controls and Procedures	The Board of Aldermen (Board) has not segregated duties or performed adequate reviews of the City Clerk's work. The City Clerk does not prepare formal bank reconciliations for the city's 10 bank accounts, and as a result, errors were not detected in the city's financial statements. In addition, the large number of bank accounts held by the city results in cumbersome record keeping. Multiple transaction were necessary to move monies from one account to another for cash flow purposes during the year ended June 30, 2014.
Budgets and Financial Statements	The Board does not prepare an adequate budget that includes revenue and disbursement estimates for the current year, the actual beginning and estimated ending cash balances, budgeted amounts for the 2 preceding years, or city indebtedness information. Further, the Board does not have any procedures in place to monitor receipts and disbursements. The city's semiannual financial statements do not contain all the financial information required by law, and combine all 10 of the city's funds into a consolidated statement, which does not allow for a clear and detailed analysis of each fund.
Utility Controls and Procedures	The Board has not segregated duties or performed adequate reviews of the City Collector's work. The City Collector is responsible for all aspects of the utility billing process, but neither the City Clerk nor the Board review the City Collector's work. The City Collector does not record the method of payment for utility monies received and does not maintain a complete list of customer utility deposits on hand. Further, the city has not reconciled the number of trash containers it is billing customers for to the number of containers the vendor bills the city, and under billed customers by approximately \$600 during the year ended June 30, 2014. Finally, annual audits of the water and sewer system are not performed as required by state law.
Conflict of Interest	The city paid a Board member approximately \$15,000 to serve as the city's Water Main Operator from September 2011 to April 2014, creating a conflict of interest.
Sunshine Law	The Board has not adopted a formal policy regarding public access to city records, and the Board does not make public the results of the votes taken and the final disposition of matters discussed in closed meetings when required. During the year ended June 30, 2014, votes taken in 7 of the 13 closed meetings held by the Board should have been disclosed to the public.

In addition, there were multiple occasions where the Board discussed topics in closed meetings other than the specific reasons given for going into the closed meeting.

In the areas audited, the overall performance of this entity was **Fair**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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City of Bunceton

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NICOLE R. GALLOWAY, CPA

Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Bunceton, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Bunceton. We have audited certain operations of the city in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2014. The objectives of our audit were to:

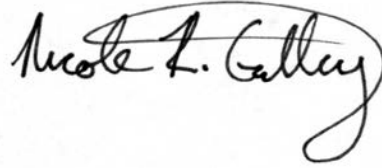
1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying 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 our audit of the city.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Bunceton.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with a large loop at the end of the last name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	Regina Pruitt, CPA
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City of Bunceton

Management Advisory Report

State Auditor's Findings

1. Accounting Controls and Procedures

There are numerous weaknesses with accounting controls and procedures.

1.1 Segregation of duties

The Board of Aldermen (Board) has not segregated duties or performed adequate reviews of the work performed by the City Clerk. The City Clerk is responsible for receiving, recording, and depositing monies; reconciling bank accounts; preparing invoices for payment and preparing checks; tracking financial information; and processing payroll. There are no independent or supervisory reviews of the City Clerk's work by the City Collector or the Board.

Proper segregation of duties is necessary to ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, independent and/or supervisory reviews should be performed and documented.

1.2 Bank reconciliations

The City Clerk does not prepare formal bank reconciliations for the city's 10 bank accounts. The City Clerk receives bank statements monthly and compares the checks that have cleared the bank to the manual check registers. The City Clerk makes a notation on the registers to indicate a check has cleared; however, she does not prepare a list of outstanding checks or other reconciling items. As discussed in section 1.3, the lack of formal bank reconciliations resulted in errors not being detected in the city's financial statements.

The preparation and independent review of formal monthly bank reconciliations is necessary to ensure accounting records are in balance and to identify errors timely.

1.3 Accounting records

The city's financial statements contained errors and did not reconcile to the cash balance for each fund. The city maintains and tracks all financial information in a spreadsheet. Since each fund has a corresponding bank account, the City Clerk enters information into the spreadsheet using the check registers, but does not reconcile the information to the bank (cash) balance. As a result, errors we identified in the financial records when compiling the financial information for the Organization and Statistical Information section of this report had not been identified by the city. For example, two deposits into the sewer account totaling \$18,740 were not entered into the financial records for the Sewer Fund. We included these deposits in the reported financial information. In addition, we had to include miscellaneous adjustments in the reported financial information for 9 of the 10 funds in order to reconcile the reported information to the actual cash balances at June 30, 2014.



City of Bunceton
Management Advisory Report - State Auditor's Findings

Reconciling financial records to bank information would help ensure the accuracy of city financial reports, and ensure financial reports are of maximum assistance to the Board and the public.

1.4 Bank accounts

The city has 10 separate funds and maintains 10 corresponding bank accounts, resulting in cumbersome record keeping. Multiple transactions were necessary to move monies from one account to another for cash flow purposes during the year ended June 30, 2014.

To help simplify city records, reduce the number of account transfers, and minimize the risk of errors, the Board should consider reducing the number of bank accounts.

Recommendations

The Board of Aldermen:

- 1.1 Segregate the duties of the City Clerk. At a minimum, there should be documented reviews of city records and reconciliations.
- 1.2 Prepare formal bank reconciliations monthly, including listings of outstanding checks and deposits in transit, and investigate and promptly resolve any discrepancies.
- 1.3 Establish procedures to ensure accounting records accurately report financial activity and account balances. In addition, the Board should review these reports to effectively monitor the city's financial activity.
- 1.4 Consider reducing the number of bank accounts.

Auditee's Response

The Board of Aldermen provided the following responses:

- 1.1 *Implemented. The City Collector has begun checking the City Clerk's records and reconciliations. She will initial the reconciliations once checked.*
- 1.2 *The City Clerk is in the process of revising procedures to ensure outstanding checks and deposits in transit will be included on the reconciliation. Any discrepancies will be investigated timely, and the reconciliation will be provided to the Board monthly.*
- 1.3 *The City Clerk is in the process of establishing procedures to update the spreadsheet monthly to ensure accuracy and provide it to the Board in order to monitor the city's financial activity.*
- 1.4 *The Board is in the process of determining the best way of reducing the number of accounts.*



City of Bunceton
Management Advisory Report - State Auditor's Findings

2. Budgets and Financial Statements

2.1 Budgets

Preparation and approval

The city does not prepare adequate budgets for any funds or adequately monitor receipts and disbursements. In addition, the city publishes financial information that is incomplete and lacks sufficient details.

The city's budgeting procedures are not adequate, and no procedures are in place to monitor receipts and disbursements.

The Board does not prepare an adequate budget for any of the city's 10 funds. Semiannually Board members hold a budget meeting. During these meetings, they update actual receipts and disbursements for the city's published financial statements. However, the Board does not prepare a budget document that includes revenue and disbursement estimates for the current year, the actual beginning and estimated ending cash balances, budgeted amounts for the 2 preceding years, or city indebtedness information.

Section 67.010, RSMo, requires the budget to present a complete financial plan for the ensuing budget year and also sets specific guidelines for the format. A complete budget should include the beginning available resources and a reasonable estimate of the ending available resources. A complete and well planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in setting tax levies and utility rates and informing the public about city operations and current finances. In addition, Section 67.080, RSMo, provides that no expenditure of public monies should be made unless it is authorized in the budget.

Monitoring

For the year ended June 30, 2014, the City Clerk provided the Board with the balance of each fund monthly, but there was no discussion of revenues as compared to disbursements. In addition, with no revenue and disbursement estimates, the Board has nothing to compare actual receipts and disbursements against to monitor the financial condition of city funds.

Once the city prepares an adequate budget annually, ongoing monitoring of budget-to-actual receipts and disbursements is necessary for the budget to be an effective management tool and comply with state law and to ensure disbursements do not exceed the amount appropriated.

2.2 Financial statements

The Board does not publish all financial information semiannually as required by state law. In 2014, the two semiannual published financial statements did not include the city's indebtedness. In addition, the annual financial statements combine all 10 funds into a consolidated statement, which does not allow for a clear, detailed analysis of each fund's financial status.



City of Bunceton
Management Advisory Report - State Auditor's Findings

Complete and accurate financial statements are necessary to keep citizens informed of the financial activity and condition of the city. Section 79.160, RSMo, requires the Board to prepare and publish a full and detailed account of the receipts, disbursements, and indebtedness of the city semiannually.

Recommendations

The Board of Aldermen:

- 2.1 Prepare annual budgets for all funds that contain all information as required by state law, and ensure the budget and financial condition are adequately monitored.
- 2.2 Ensure semiannual financial statements are published in accordance with state law and contain adequate detail and documentation.

Auditee's Response

The Board of Aldermen provided the following responses:

- 2.1 *Budget training will be provided to the Board and an adequate budget will be developed for the upcoming fiscal year. Actual and budget information will be reviewed throughout the year.*
- 2.2 *Semiannual financial statements will be published in accordance with state law.*

3. Utility Controls and Procedures

There are weaknesses in city operations related to utility services. The city provided utility services to 157 customers based on a June 2014 report. According to the city's financial statement, the city collected approximately \$57,000 in water fees, \$52,000 in sewer fees, and \$23,000 in trash fees during the year ended June 30, 2014.

3.1 Segregation of duties

The Board has not segregated duties or performed adequate reviews of the work performed by the City Collector. The City Collector is responsible for all aspects of the utility billing process including creating customer utility billings, receiving, recording, and depositing utility monies; and posting entries in the utility accounting system, including adjustments. There are no independent or supervisory reviews of the City Collector's work by the City Clerk or the Board.

Proper segregation of duties is necessary to ensure all transactions are accounted for properly and assets are adequately safeguarded. In addition, requiring someone independent of receipting and recording functions to review and approve any adjustments made would help ensure all adjustments are valid. If proper segregation of duties cannot be achieved, independent and/or supervisory reviews should be performed and documented.



City of Bunceton Management Advisory Report - State Auditor's Findings

3.2 Utility receipts

The City Collector does not record the method of payment (cash or check) for utility monies received. Therefore, the composition of receipts cannot be reconciled to the composition of deposits.

Recording the method of payment allows the composition of monies received to be reconciled to the composition of deposits, and ensures all monies are properly recorded and deposited intact.

3.3 Utility deposits

The city does not maintain a complete list of customer utility deposits on hand. New utility customers are required by ordinance to pay a \$100 refundable deposit before receiving service. Customer deposits, which constitute a liability to the city, are comingled in the Water Fund bank account with other Water Fund monies.

Maintaining and updating a complete list of customer utility deposits is necessary to provide a record of monies held for individual customers. In addition, maintaining a separate accounting record of utility deposits and comparing it to the fund balance provides the city assurance the Water Fund account balance is sufficient to cover customer deposit liabilities and ensure customer deposit monies are not used for water operations.

3.4 Trash

The city has not been billing customers for all services it is billed for by the trash vendor. Charges for trash services are included on a combined utility bill (water, sewer, and trash expenses). The billing for trash services is collected by the city and remitted to the trash service vendor monthly, with the city retaining a portion for administrative costs.

According to the city's contract with the trash vendor, the city should pay the vendor based on the number of trash containers (residential and commercial) provided to trash customers. According to the contract, the city is to update the vendor quarterly on the number of trash containers based on either an actual count or from records provided by the city. However, the city has not reconciled the number of containers it is billing customers for to the number of containers the vendor bills the city. For example, in June 2014 the city billed customers for a total of 146 containers, but was billed by the vendor, and paid for, 151 containers. It is not clear whether the vendor or city's count is accurate, but based on our analysis of trash vendor billings, the city under billed customers approximately \$600 for trash services during the year ended June 30, 2014.

Reconciling the number of trash customers billed to the number of trash customers receiving services from the contractor will help ensure trash revenues are maximized and are collected in accordance with the trash contract.

3.5 Annual audit

Annual audits of the water and sewer system are not performed.



City of Bunceton
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Section 250.150, RSMo, requires the city to obtain annual audits of the combined water and sewer system. In addition to being required by state law, annual audits of city funds help ensure monies are properly handled and financial transactions are properly recorded.

Recommendations

The Board of Aldermen:

- 3.1 Segregate the duties of the City Collector. At a minimum, there should be a documented review of city utility records.
- 3.2 Require recording of the method of payment, and reconciliation of the composition of receipts to the composition of deposits.
- 3.3 Ensure a complete list of utility deposits on hand is maintained and monitored to ensure sufficient funds are on hand to cover potential customer deposit liabilities.
- 3.4 Ensure the number of containers billed to customers agrees to the number of containers the city is billed for by the trash vendor.
- 3.5 Obtain annual audits of the water and sewer system as required.

Auditee's Response

The Board of Aldermen provided the following responses:

- 3.1 *Implemented. The Mayor is reviewing all deposits and comparing them to the water reports. The Mayor is now reviewing adjustment reports, and adjustments will also be reviewed by the Board.*
- 3.2 *Implemented. The City Collector is documenting payment method and reconciling the composition of receipts to deposits.*
- 3.3 *Implemented. The City Collector compiled a list of all utility deposits. The list will be updated and compared to the Water Fund account balance monthly.*
- 3.4 *City representatives are in the process of meeting with the trash vendor to discuss billing of customers. The number of containers billed to customers will be reconciled to the number of containers the city is being billed for going forward.*
- 3.5 *The Board is in the process of hiring a firm for annual audits.*



City of Bunceton
Management Advisory Report - State Auditor's Findings

4. Conflict of Interest

One Board member was compensated for services performed while also serving on the Board, creating a conflict of interest. The city employed a Board member from September 2011 to April 2014 to be the city's Water Main Operator and compensated the Board member approximately \$15,000 during this time period.

Section 105.458, RSMo, states "no member of any legislative or governing body of any political subdivision of the state shall: (1) Perform any service for such political subdivision or any agency of the political subdivision for any consideration other than the compensation provided for the performance of his or her official duties."

Recommendation

The Board of Aldermen avoid transactions that represent actual conflicts of interest or the appearance of conflicts of interest.

Auditee's Response

The Board of Aldermen provided the following response:

The Board member in question no longer serves on the Board of Aldermen, and is no longer employed by the city of Bunceton.

5. Sunshine Law

The city did not always comply with the Sunshine Law. The Board held 13 closed meetings during the year ended June 30, 2014.

5.1 Public access policy

The Board has not adopted a formal policy regarding public access to city records. A formal policy regarding public access to city records would establish guidelines for the city to make requested records available to the public. A public access policy would provide information to the public to ensure any records requests are handled consistently and in compliance with state law. At a minimum, such a policy should identify a person to contact, provide an address to mail such a request, and establish a cost schedule for providing copies of public records.

Section 610.023, RSMo, lists requirements of making records available to the public, and Section 610.026, RSMo, allows the city to charge fees for providing access to and/or copies of public records and provides requirements related to fees. Finally, Section 610.028, RSMo, requires a written policy regarding release of information under the Sunshine Law.

5.2 Votes in closed meetings

The Board does not make public the results of the votes taken and the final disposition of matters discussed in closed meetings, when required. There were 13 closed meetings held during the year ended June 30, 2014. Votes were taken during 7 of the 13 meetings which, due to the subject of the vote, should have been disclosed. However, the result of these votes were not made public in the open meeting minutes or by other means.



City of Bunceton
Management Advisory Report - State Auditor's Findings

Section 610.021, RSMo, provides that after a closed meeting, depending on the reason for the meeting, the governmental body must make any votes or decisions public or available to the public.

5.3 Topics discussed

Some topics discussed during closed meetings were other than the specific reasons cited for going into a closed meeting. On multiple occasions the open meeting minutes documented a topic to be discussed in the closed meetings that was not covered in the meeting, or minutes documented a topic to be discussed and showed other issues in addition to that topic were discussed. For example, on two separate occasions, during the open meeting the Board voted to go into a closed meeting to discuss legal issues; however, during both of these meetings the Board also discussed personnel issues.

Section 610.022, RSMo, requires a closed meeting, record, or vote to be held only for the specific reasons announced publicly at an open meeting. In addition, this law provides that public governmental bodies shall not discuss any other business during the meeting that differs from the specific reason used to justify such meeting, record, or vote.

Recommendations

The Board of Aldermen:

- 5.1 Develop written policies regarding procedures to obtain access to, or copies of, public records.
- 5.2 Ensure votes taken and decisions made in closed meetings are properly made public when required.
- 5.3 Limit issues discussed in closed meetings to only those specific reasons cited to justify the closed meeting.

Auditee's Response

The Board of Aldermen provided the following responses:

- 5.1 *Implemented. A Sunshine Law policy has been written and approved by the Board.*
- 5.2&
5.3 *Additional Sunshine Law training will be obtained for the Board and staff.*

City of Bunceton

Organization and Statistical Information

The City of Bunceton is located in Cooper County. The city was incorporated in 1868 and is currently a fourth-class city. The city employed 4 part-time employees on June 30, 2014.

City operations include law enforcement services, utilities (water, sewer, and trash), street maintenance, fire services, and a public park.

Mayor and Board of Aldermen

The city government consists of a mayor and 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 and the Board of Aldermen, at June 30, 2014, are identified below. The Mayor is paid \$3 per year and the Board of Aldermen members are paid \$1 per year. The compensation of these officials is established by ordinance.

Justin Hein, Mayor
John Breshears, Alderman
Teresa Carver, Alderwoman
Angie Jobe, Alderwoman
Johnathan Stroebel, Alderman

Financial Activity

A summary of the city's financial activity for the year ended June 30, 2014, follows:

City of Bunceton
Schedule of Receipts, Disbursements, and Changes in Cash Balances
Year Ended June 30, 2014

	General Fund	Street Fund	Water Fund	Sewer Fund	Trash Fund	Police Fund	Fire Fund	Park Fund	Replacement and Extension Fund	USDA Reserve Fund	Total
RECEIPTS											
Property taxes	\$ 20,316										20,316
Local sales taxes	10,001										10,001
Franchise tax	14,478										14,478
Motor fuel and vehicle taxes		14,652									14,652
Utility revenues			57,037	52,216	23,172				4,931		137,356
Utility fees			5,491								5,491
Fines and fees						1,970					1,970
Loan proceeds				90,760							90,760
Grant proceeds							2,698				2,698
Donations							5,535	473			6,008
Miscellaneous	618			181				300		29	1,128
Total Receipts	45,413	14,652	62,528	143,157	23,172	1,970	8,233	773	4,931	29	304,858
DISBURSEMENTS											
Personal service	3,736	3,242	10,970	4,236		1,229	15	350			23,778
Payroll taxes	680	1,190	3,423	1,727		225	46	190			7,481
United States Department of Agriculture (USDA) loan payments			31,092								31,092
Trash service provider					22,480						22,480
Propane/vehicle fuel	3,876	1,105				392	431				5,804
Expense and equipment		750					2,607				3,357
Operation and maintenance	5,138	9,703	16,004	114,459		3,286	569	754			149,913
Legal fees	7,492		66	2,372		22					9,952
Insurance	1,830		12,294		3,878	1,435	1,921				21,358
Utilities	8,965		2,023								10,988
Engineering services				10,500							10,500
Mowing	825						90	860			1,775
Miscellaneous		939	5,360	1,819							8,118
Total Disbursements	32,542	16,929	81,232	135,113	26,358	6,589	5,679	2,154	0	0	306,596
RECEIPTS OVER/(UNDER) DISBURSEMENTS	12,871	(2,277)	(18,704)	8,044	(3,186)	(4,619)	2,554	(1,381)	4,931	29	(1,738)
TRANSFERS											
Transfers from:											
General Fund	(8,500)										(8,500)
Street Fund		(2,081)									(2,081)
Water Fund			(4,629)								(4,629)
Police Fund						(1,090)					(1,090)
Fire Fund							(76)				(76)
Park Fund								(498)			(498)
Transfers to:											
General Fund	8,374										8,374
Police Fund						3,400					3,400
Fire Fund							3,400				3,400
Park Fund								1,700			1,700
Total Transfers	(126)	(2,081)	(4,629)	0	0	2,310	3,324	1,202	0	0	0
RECEIPTS OVER/(UNDER) DISBURSEMENTS	12,745	(4,358)	(23,333)	8,044	(3,186)	(2,309)	5,878	(179)	4,931	29	(1,738)
ADJUSTMENTS *	(6,518)	591	1,785	(999)	(63)	(174)	(174)	87	1,411	0	(4,054)
CASH BALANCE, JULY 1, 2013	6,558	32,681	78,888	51,321	10,219	6,869	4,519	4,962	6,600	32,127	234,744
CASH BALANCE, JUNE 30, 2014	\$ 12,785	28,914	57,340	58,366	6,970	4,386	10,223	4,870	12,942	32,156	228,952

* Unidentified difference between beginning and ending cash balances.