



Susan Montee, CPA
Missouri State Auditor

Village of Humphreys



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Office of
Missouri State Auditor
Susan Montee, CPA

June 2008

The following findings were included in our audit report on the Village of Humphreys, Missouri.

The Village of Humphreys does not prepare ledgers of receipts and disbursements and does not prepare bank reconciliations. Summary financial information is not prepared for the Board of Trustees' review and approval. Invoices are not filed in an orderly manner and some invoices or other supporting documentation could not be located to support village disbursements.

Controls over property tax collections and distributions need to be improved. Individual receipts are not reconciled to deposits and receipts are not deposited timely. Listings of delinquent taxes are not prepared and the collection of delinquent taxes should be turned over to the county collector as required by state law. In addition, property taxes are deposited into a separate village bank account, and have not been properly distributed since 2004, with \$4,325 remaining in the property tax bank account at December 31, 2007. The village levies taxes for general revenue, parks, lights, and streets. The property taxes should be distributed to these four village funds, and to the county assessment fund as required by state law.

The village does not have formal bidding or purchasing policies and board approval is not documented for some disbursements. The village made disbursements on behalf of a not-for-profit (NFP) corporation without a written agreement. The village made payments for sewer testing services without a written agreement, and there is a dispute regarding amounts owed by the village for these services. The village did not document how it allocated certain expenses to various village funds.

During the year ended December 31, 2007, the village deposited approximately \$38,000 in water and sewer fees and customer deposits. The village does not keep records of refundable customer deposits, some water/sewer receipts were not recorded as received, and receipts are not reconciled to bank deposits. Additionally, the village does not reconcile total billings, payments received, and amounts remaining unpaid, and does not have comprehensive policies to follow up on delinquent accounts. Also, the village does not reconcile gallons of water purchased to gallons of water billed to customers.

Also included in the audit report are recommendations related to board meetings, minutes, and ordinances, financial reporting and budgets, and payroll and related matters.

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YELLOW SHEET

VILLAGE OF HUMPHREYS

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

To the Honorable Chairman
and
Members of the Board of Trustees
Village of Humphreys, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Village of Humphreys. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2007. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the village has adequate internal controls over significant management and financial functions.
3. Determine if the village has complied with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the village, 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. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We 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, grant agreement, 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. 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. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions.

Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

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

The accompanying Management Advisory Report presents our findings arising from our audit of the Village of Humphreys.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Mark Ruether, CPA
In-Charge Auditor: Terese Summers, CPA

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

VILLAGE OF HUMPREYS
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Accounting Controls and Procedures
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The village does not prepare ledgers of receipts and disbursements and does not prepare bank reconciliations. Summary financial information is not prepared for the Board of Trustees' review and approval. Invoices are not filed in an orderly manner and some invoices or other supporting documentation could not be located to support village disbursements. Some village officials with access to assets are not bonded, and some former village officials and employees were not removed from the bank signature cards on a timely basis. The village maintains numerous bank accounts and should consider consolidating to fewer accounts.

- A. The village does not prepare ledgers of receipts and disbursements and does not prepare bank reconciliations. Check registers are maintained for the checking accounts, but some of the registers did not contain all deposits and checks issued, some checks were issued out of numerical sequence, and running balances were not maintained for any of the accounts. In addition, several village bank statements were missing and the village obtained copies of various statements from the bank at our request.

Ledgers of receipts and disbursements and monthly bank reconciliations are necessary to ensure all cash transactions are recorded and accounted for, and to ensure errors and omissions are detected and corrected in a timely manner.

- B. Summary financial information is not prepared for the Board of Trustees' review and approval. It appears that no summary financial information has been prepared since 2003. Current board minutes include documentation of the village's bank balances; however, a summary of all receipts and disbursements is not prepared.

To adequately inform the board of all financial activity and to allow the board to monitor the financial condition of the village, monthly reports summarizing all village receipts, disbursements, and cash balances should be prepared and included with the monthly board minutes.

- C. Invoices to support village disbursements are not filed in an orderly manner, making it difficult to locate invoices and to ensure invoices are maintained for each disbursement. The village records that were provided to us were kept in various storage boxes, and invoices were not filed in any particular order. Invoices or other supporting documentation could not be located to support some village disbursements.

To ensure the propriety of all disbursements, invoices and other supporting documentation should be retained for each disbursement and filed in an orderly manner.

- D. The Village Clerk/Collector, who handles all village receipts, is not bonded. While the board chairman is bonded, other board members who are authorized to sign checks are not bonded. In addition, both the former village clerk and the former board chairman were still listed on the bank signatory cards for the various village bank accounts as of February 2008, even though they left these positions in 2007.

Section 80.250, RSMo, requires bond coverage of at least \$1,000 for the village collector. Failure to properly bond all persons with access to assets exposes the village to risk of loss. In addition, the village should ensure that former officials and employees are removed from the bank signatory cards in a timely manner.

- E. As of December 31, 2007, the village maintained 11 bank accounts and 6 certificates of deposit (CD) at two banks. In addition, the Village Clerk did not have a listing of all village bank accounts and CDs, and information for some of the CDs had to be obtained from the bank upon our request.

The village should consider consolidating its funds into fewer bank accounts. A large number of bank accounts requires additional recordkeeping and increases the likelihood that errors will occur in the handling of funds.

WE RECOMMEND the Board of Trustees:

- A. Ensure ledgers or other records are maintained for all receipts, disbursements, and cash balances, and ensure monthly bank reconciliations are prepared. In addition, copies of all bank statements should be maintained and checks should be issued in numerical sequence.
- B. Ensure summary monthly financial information is prepared for board review and approval and is filed with the board minutes.
- C. Ensure invoices or other supporting documentation are maintained for each disbursement and are filed in an orderly manner.
- D. Obtain bond coverage for all officials with access to village assets, and ensure former officials and employees are removed from the bank signatory cards in a timely manner.
- E. Review the number of bank accounts and consider consolidation of accounts.

AUDITEE'S RESPONSE

- A. *We agree and will implement.*
- B. *More detailed information has now been provided to the board but we will consider revising the reports to include more detail.*
- C. *The current village clerk has now been filing invoices in an orderly manner.*
- D. *The village clerk and all trustees authorized to sign checks are now bonded. We will determine who should be included on the signature cards and update them accordingly.*
- E. *We agree and will consolidate the bank accounts as much as possible.*

2. Board Meeting Minutes, Agendas, and Ordinances
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Meeting minutes were not signed and did not always contain sufficient detail of matters discussed and actions taken. The board does not always post notices of meetings and tentative agendas as required by state law. Village ordinances are not up-to-date and complete, and compensation paid to board members and other officials is not set by ordinance.

- A. Board meeting minutes did not always contain sufficient detail of matters discussed and actions taken. Because of the lack of detail, it is difficult to determine if all votes and actions taken by the Board of Trustees were adequately documented and recorded.

Section 610.020.7, RSMo, requires minutes of open and closed meetings to be taken and retained by all governmental bodies and to include the date, time, place, members present, members absent, and a record of votes taken. Complete and accurate meeting minutes are necessary to retain a record of business conducted and to provide an official record of board actions and decisions.

- B. None of the meeting minutes were signed. Board minutes should be signed by the preparer and by the board chairman to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- C. Village officials indicated that notices of meetings or tentative meeting agendas are not always posted, and the village did not retain copies of some notices and agendas. Section 610.020.1, RSMo, requires that a tentative agenda and a meeting notice be posted prior to all meetings of a public governmental body. The village should ensure that copies of agendas and meeting notices are retained to document compliance with state law.

- D. The village ordinances are not complete and up-to-date. The Village Clerk (who is a former board member) indicated that in the 1990's, the board rescinded all old village ordinances; however, it appears the village continues to utilize some old ordinances, such as allowing the Village Clerk/Collector to receive a 10-percent commission for property tax collections. The Village Clerk provided copies of four ordinances passed since the 1990's; however, village officials could not provide a complete record of all village ordinances currently in force.

Since ordinances represent legislation which has been passed by the board to govern the village and its residents, it is important that the ordinances be maintained in a complete and up-to-date manner. An index of all ordinances passed and repealed by the village could help keep track of additions and changes made to the village ordinances.

- E. The village has not adopted ordinances to set the compensation of village officials. Current village officials indicate it has been the village policy to pay the board members \$1 for attending each board meeting; however, no such payments were made to board members for 2007. In addition, the former Village Clerk was receiving a \$45 monthly payment in excess of the authorized salary documented in the minutes. Also as described in Part D above, the Village Clerk/Collector receives a 10-percent commission for collecting property taxes even though it appears the applicable ordinance had been rescinded. Section 80.240, RSMo, allows the board to appoint certain officials and to fix their compensation.

In 2007 and 2006, a total of \$641 was paid to some current and former board members for services provided to the village, such as meter reading services, tree trimming and other miscellaneous services, and mileage reimbursements that were not adequately documented. Section 105.458, RSMo, states that no member of a governing body of any political subdivision shall perform any service for the political subdivision for compensation other than the compensation provided for the performance of his official duties.

To ensure compliance with state law, the board should establish the compensation of all village officials by ordinance. In addition, the board should refrain from providing additional compensation to board members for services beyond the performance of their official duties.

WE RECOMMEND the Board of Trustees:

- A. Ensure detailed minutes of all meetings are prepared and retained.
- B. Ensure meeting minutes are signed by the preparer and the board chairman to attest to their completeness and accuracy.
- C. Ensure notices and tentative agendas of all board meetings are posted and retained.

- D. Update and codify the village ordinances and ensure a complete set of ordinances is maintained. In addition, the village should consider establishing an index of all ordinances passed and rescinded.
- E. Establish all officials' compensation by ordinance, and refrain from providing compensation to board members for services performed beyond their official duties.

AUDITEE'S RESPONSE

A. *We will attempt to put more detail in the minutes.*

B&E. We agree and will implement.

C. *This is now being done and copies of all meeting notices and agendas are being kept with the minutes.*

D. *We will consider updating the ordinances.*

3.	Financial Reporting and Budgets
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The village does not post semi-annual financial statements nor submit annual financial reports to the State Auditor's Office as required by state law. The village does not prepare annual budgets or street maintenance plans and has not obtained annual audits as required by state law.

- A. The village does not publish or post semi-annual financial statements. Section 80.210, RSMo, requires that the Board of Trustees prepare and publish semi-annual financial statements in a local newspaper, or if there is no local newspaper, to post semi-annual financial statements in at least six of the most public places in the village. In addition, Section 80.220, RSMo, states that the village can be fined if the Chairman of the Board neglects to publish or post such statements.
- B. The village has not submitted annual financial reports to the State Auditor's Office since 2003. Section 105.145, RSMo, requires political subdivisions to file annual reports of the financial transactions of the political subdivision with the State Auditor's Office within the time prescribed by the State Auditor (currently within four months of the end of the fiscal year for un-audited financial statements and within six months of the end of the fiscal year for audited financial statements).
- C. The village does not obtain annual audits. An audit was obtained for the year ended December 31, 1999 in conjunction with the expenditure of sewer grant monies, but no audits have been obtained since that time. Section 250.150,

RSMo, requires the village to obtain annual audits of the combined waterworks and sewerage system.

In addition to being required by state law, annual audits of village funds would help ensure village financial transactions have been properly recorded.

- D. The village does not prepare annual budgets. Section 67.080, RSMo, provides that no expenditures of public monies shall be made unless it is authorized in the budget.

Sections 67.010 through 67.080, RSMo, set specific guidelines as to the format, approval, and amendment of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of village operations and provide a means to effectively monitor actual costs and revenues.

- E. An annual maintenance plan for village streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the village residents.

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

During 2007, the village spent only \$2,177 from the Street Fund, which included \$1,637 for street lights. The balance of the Street Fund at December 31, 2007, was \$76,616. While accumulating funds for future use may be desirable, the board should review the overall financial condition of the Street Fund and set the village tax rate to provide sufficient operating funds yet not create an excessive fund balance.

WE RECOMMEND the Board of Trustees:

- A. Publish or post semi-annual financial statements as required by state law.
- B. Submit annual reports of financial transactions to the State Auditor's Office as required by state law.

- C. Obtain annual audits of the combined waterworks and sewerage system as required by state law.
- D. Prepare annual budgets which include all information required by state law and/or necessary to provide a complete financial plan for the village.
- E. Prepare a formal maintenance plan for village streets at the beginning of the fiscal year and periodically update the plan throughout the year. In addition, the board should review the financial condition of the Street Fund and set the tax rate to provide sufficient operating funds but does not create an excessive fund balance.

AUDITEE'S RESPONSE

A&B. We agree and will implement.

C. We will consider obtaining periodic audits. We believe that annual audits will be too expensive and our current funding is limited.

D. We will consider preparing annual budgets.

E. We will consider adopting a maintenance plan and ways of using the accumulated balance.

4.	Property Tax Procedures
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Controls over property tax collections and distributions need to be improved. Individual receipts are not reconciled to deposits and receipts are not deposited timely. Property taxes have not been properly distributed since 2004, and \$4,325 remained in the property tax bank account at December 31, 2007. Listings of delinquent taxes are not prepared and the collection of delinquent taxes should be turned over to the county collector as required by state law.

A. The Village Clerk/Collector prepares individual property tax bills and marks these bills as paid when payment is received. However, a listing of taxes received is not prepared, making it difficult to trace specific payments to bank deposits. To ensure all property tax receipts are adequately accounted for and deposited, the Village Clerk/Collector should prepare listings of property taxes as they are received and reconcile these to bank deposits.

B. The Village Clerk/Collector does not always deposit property taxes on a timely basis. Most property taxes are collected in December and are normally not deposited until late January. For example, there were no deposits in December 2006 and one deposit of \$2,305 on January 31, 2007. To reduce the risk of loss, theft, or misuse of funds, property tax receipts should be deposited on a timely basis.

- C. Property taxes are deposited into a separate village bank account, and since February 2004 have not been properly distributed to the various village funds. Some taxes were distributed to the various village funds during 2005 and 2006, but no distributions were made during 2007. Total deposits to the property tax bank account were \$2,678 during 2007, and at December 31, 2007, the account balance was \$4,325.

The village levies taxes for general revenue, parks, lights, and streets (although the tax levies for lights and streets were voluntarily reduced to zero for 2007 taxes). The property taxes should be distributed to these four village funds, and to the county assessment fund as required by Section 137.720, RSMo.

The current Village Clerk/Collector should determine the amount of taxes due to the various village funds and to the county assessment fund, and distribute these funds. In the future, all property taxes collected should be distributed on a timely basis.

- D. The Village Clerk/Collector does not prepare listings of uncollected delinquent taxes or ensure all tax book charges agree to total collections plus the amounts remaining delinquent. In addition, the village does not turn over the responsibility for collection of delinquent taxes to the county collector as required by state law.

Section 80.480, RSMo, requires the village collector to prepare a list of delinquent taxes remaining uncollected on the first day of January of each year. This section also requires the board of trustees to examine and approve the list, credit the village collector for the amount of uncollected taxes, and turn over the collection of delinquent taxes to the county collector.

To ensure all property tax transactions are accounted for and to ensure compliance with state law, the Village Clerk/Collector should prepare an annual report as of January 1 summarizing total taxes charged, total collections, and a listing of delinquent taxes. The village board should review and approve the report and the delinquent tax listings, and turn over the collection of the delinquent taxes to the county collector.

WE RECOMMEND the Board of Trustees ensure the Village Clerk/Collector:

- A. Prepares listings of individual property tax receipts and reconciles the receipts to bank deposits.
- B. Deposits property tax receipts in a timely manner.
- C. Distributes all property tax collections to the various village funds and the county on a timely basis. In addition, the Village Clerk/Collector should determine the proper distribution of all taxes collected since 2004, distribute those amounts, and ensure the tax collection bank account zeroes out.

- D. Prepares annual statements of property tax charges, collections and amounts remaining delinquent as of January 1. In addition, the board should turn over the collection of delinquent taxes to the county collector as required by state law.

AUDITEE'S RESPONSE

- A. *This is now being done.*
- B. *We will deposit as frequently as possible; however, there is no bank located in the village and the cost of driving to the bank has been increasing.*
- C. *We will implement this recommendation.*
- D. *We agree and will consider contracting with the county to collect all village property taxes.*

5.

Payroll and Related Matters

The village does not have adequate procedures to ensure that payroll expenses are properly reported and that payroll tax withholdings are properly computed and disbursed. Some compensation payments were not subject to payroll tax withholdings or W-2 reporting, and the village does not file 1099 forms as required.

- A. The village did not retain adequate payroll information to show compliance with various Internal Revenue Service (IRS) and other requirements, as follows:
 - 1. In 2007 and 2006, the village did not withhold any federal or state taxes from employees' paychecks. The village does not require employees to prepare federal W-4 forms or state withholding forms, which are required to support the proper withholding of federal and state taxes.
 - 2. Copies of some required payroll reporting forms were not maintained, although the former Village Clerk indicated she filed the required forms. For 2007, the village could only provide a copy of the federal 941 report for the third quarter of the year, although this report is required to be filed for every quarter. Also, some copies of state unemployment tax reports were not available.
 - 3. It appears the village has not appropriately disbursed some payroll tax withholdings. A scan of the village check registers indicated that checks were not issued for some required quarterly payments. In addition, some mathematical errors were noted on federal 941 and state unemployment tax reports that were available, including using a slightly higher percentage for the determination of federal Social Security and Medicare taxes.

Adequate calculations of payroll taxes is needed in order to file accurate payroll reports, and retention of payroll documentation is required to support payroll tax computations and to show compliance with applicable federal and state laws and regulations. The village should review its records and contact the IRS and the state to ensure all applicable payroll withholdings have been made and disbursed and to ensure all applicable reports have been filed. Failure to properly withhold and report payroll taxes could result in fines and penalties to be levied against the village.

- B. The following payments to employees were not subject to payroll tax withholdings or W-2 reporting:
1. The former Village Clerk/Collector was paid a salary and was also paid commissions for collecting village property taxes. The salary was subject to payroll tax withholdings and reported to the IRS on W-2 forms (2007 W-2 forms have not been filed as noted above); however, the commissions, totaling \$254 and \$509 for 2007 and 2006, respectively, were not reported on W-2 forms nor were applicable payroll taxes withheld from the commissions. The current Village Clerk/Collector was not paid any commissions until 2008.
 2. The current Village Clerk, who was a village board member until April 2006 and was appointed Village Clerk in September 2007, has been paid \$75 a month for meter-reading services. Prior to October 2006, these payments were not subject to payroll tax withholding or W-2 reporting. Subsequent payments have been subjected to payroll tax withholding and W-2 reporting; however, the 2007 W-2 forms have not been filed as noted above.

Since the payments for commissions and meter-reading services represent compensation for performing village duties, it appears these payments should be subject to payroll tax withholding and W-2 reporting. The village should ensure that all future amounts paid to employees are subject to payroll tax withholding and reported to the IRS. In addition, the village should contact the IRS to determine if amended W-2 forms should be filed for payments not previously reported.

- C. The village has no procedures in place to ensure Forms 1099 are filed with the Internal Revenue Service (IRS). As a result, the village did not file Forms 1099 for payments made for mowing services totaling \$1,550 in 2007 and \$1,850 in 2006. Sections 6041 through 6051 of the Internal Revenue Code require payment of \$600 or more for professional services or for services performed as a trade or business by non employees (other than corporations) to be reported to the federal government on Forms 1099.

WE RECOMMEND the Board of Trustees:

- A. Ensure all payroll taxes are properly computed and disbursed and all federal and state payroll tax forms are prepared and filed on a timely basis. Copies of all forms and computations should be maintained. The village should contact the IRS and the state to ensure all prior payroll taxes have been properly disbursed and all payroll reports have been filed accurately and timely, and file amended returns as necessary.
- B. Ensure that all compensation paid to employees, such as commissions on property tax collections and meter-reading payments, are subject to payroll tax withholding and reported on the employees' W-2 forms. In addition, the village should contact the IRS to determine if amended W-2 forms should be issued.
- C. Establish procedures to ensure IRS Forms 1099 are filed as required.

AUDITEE'S RESPONSE

A. *W-4 forms are now on file for employees. The village clerk indicated that the village qualifies to file payroll tax reporting forms (form 944) on an annual basis and he has contacted the IRS to make this switch. All required payroll forms will be prepared and retained and withholdings will be properly computed and disbursed.*

B&C. We agree and will implement.

6.

Expenditures

The village does not have formal bidding or purchasing policies and board approval is not documented for some disbursements. The village made disbursements on behalf of a not-for-profit (NFP) corporation without a written agreement. The village made payments for sewer testing services without a written agreement, and there is a dispute regarding amounts owed by the village for these services. The village did not document how it allocated certain expenses to various village funds.

A. The village has not established formal bidding or purchasing policies. Although the village makes mostly small or routine purchases, formal bidding and purchasing policies would help ensure that the village obtains goods and services at a reasonable price.

For example, the village purchased gravel costing \$5,050 in 2006. The board did not solicit bids for this purchase or otherwise document that a reasonable price was paid, such as calling other vendors for price quotes. The village also purchases property and liability insurance without obtaining bids.

Formal bidding and purchasing procedures would provide the framework for economical management of village resources and help ensure the village receives fair value for all purchases. For purchases in which soliciting bids may not be practical, price quotes or other documentation of the fair market value of the item should be obtained to ensure a reasonable price is paid.

- B. The Board of Trustees receives and approves a listing of bills to be approved and paid which is included in the monthly meeting minutes; however, numerous disbursements were made that were not included on these listings or otherwise approved by the board, such as payments for gravel, insurance, mowing, and electric bills. In addition, checks are sometimes signed in advance by board members without consideration of the payee, amount, or anticipated date of payment. Checks require dual signatures and are generally signed by the board chairman and another board member.

Expenditures made from village funds should be reviewed and approved by the Board of Trustees before payment is made to ensure all disbursements represent valid operating costs to the village. To adequately document the board's review and approval, a complete listing of all bills to be paid should be prepared and included in the board minutes. The listing should also include disbursements which the board has determined are routine bills which may be paid prior to the monthly meetings. In addition, the board should discontinue the practice of signing checks in advance.

- C. The village made several disbursements in 2007 on behalf of the Community Building which is used by the village for its monthly board meetings, but is apparently owned by a separate NFP corporation. There is no written agreement between the village and the NFP to define the relationship between the two entities.

Village disbursements for the Community Building included \$234 for electricity, \$176 for repairs, and \$706 for insurance. Prior to 2007, the village paid \$20 per month to rent the Community Building, and village officials indicated that these payments for the Community Building were made in lieu of rent. In addition, village officials indicated that the NFP was having financial difficulties.

Disbursements should only be made for reasonable and necessary purchases to operate the village, and the purpose of all disbursements should be adequately documented. Disbursements made on behalf of the Community Building should be made in accordance with a contract or written agreement between the two parties which clearly document the responsibilities of each party and the benefits received by the village.

- D. The village paid a total of \$5,000 to the City of Galt for sewer testing services during 2007 and 2006. The village did not enter into a contract for these services and did not retain invoices or other supporting documentation for several of these

payments. Currently, a village employee has the proper qualifications to perform the required testing and the village no longer uses the city for this service.

Of the \$5,000 paid to the city, two checks totaling \$1,300 have not cleared the village's bank account (\$300 in 2007 and \$1,000 in 2006). The city recently provided the village with documentation that indicates the village owes the city \$5,334 in unpaid services. This documentation indicated the city received a total of \$3,700 from the village during 2006 and 2007 (\$5,000 less the \$1,300 in checks which have not cleared the village's bank account). Village officials could not provide documentation of the amount they believe is owed to the city, although current board members and the former village clerk indicated the amount owed is much less than the amount documented by the city.

The village was not monitoring bank activity and performing bank reconciliations, so the village did not detect the outstanding checks on a timely basis. In addition, the village apparently had no controls in place to ensure all services provided by the city were billed and paid in full.

The village should work with the City of Galt to determine the proper amount still due to the city for sewer testing services, and the village should follow up on the outstanding checks and re-issue them if necessary. Any future payments of this nature should be done on a contractual basis to help avoid misunderstandings, and supporting documentation should be maintained for all disbursements.

- E. The village made disbursements from various funds on an inconsistent basis as follows:
1. Property and liability insurance payments in 2007 (including the payment for the Community Building noted above) were made from the General Fund totaling \$806 and the Water and Sewer Fund totaling \$2,185. In 2006, \$260 was paid from the General Fund and \$2,127 was paid from the Street Fund. While it would appear reasonable to allocate insurance expense as it relates to various village activities or functions, the village had no documentation to support the allocation of insurance expenses to the various funds.
 2. Meter-reading payments were paid from Water and Sewer Fund in 2007; however, in 2006, \$675 was paid from the Street Fund and \$225 was paid from the Water and Sewer Fund. Meter reading is a function of providing water services, so it would appear that all of these expenses should be paid from the Water and Sewer Fund.
 3. Mowing expenses for 2007 were paid \$275 from the General Fund, \$250 from the Water and Sewer Fund, and \$1,025 from the Park Fund. In 2006, \$650 was paid from the Water Fund and \$1,200 was paid from the Park

Fund. The village had no documentation to support the allocation of mowing expenses to the various funds.

Because of legal and other restrictions on the use of the various funds, the village should ensure all expenses are paid from the appropriate fund. For any expenses that are allocated to more than one fund, the village should prepare and retain documentation to support the allocation.

WE RECOMMEND the Board of Trustees:

- A. Establish formal bidding and purchasing policies and maintain documentation to ensure the village receives fair value for all major purchases.
- B. Discontinue the practice of signing checks in advance, and review and approve all expenditures of village funds.
- C. Ensure the purpose of all expenditures is adequately documented. If the village continues to make payments on behalf of the Community Building, the village should enter into a contract with the NFP to document the responsibilities of each party and the benefits received by the village.
- D. Work with the City of Galt to determine the proper amount due the city for sewer testing services. Any future agreements should be in writing and payments should be adequately documented.
- E. Ensure all expenses are paid from the appropriate fund, and maintain documentation to support expenses that are allocated to various funds.

AUDITEE'S RESPONSE

A,B,
&E. *We agree and will implement.*

C. *We will discuss this matter and take appropriate action.*

D. *We will work to resolve this matter.*

7. Water and Sewer System Concerns

The village does not keep records of refundable customer deposits. Some water/sewer receipts were not recorded as received and receipts are not reconciled to bank deposits. The village does not reconcile total billings, payments received, and amounts remaining unpaid, and does not have comprehensive policies to follow up on delinquent accounts. The village does not reconcile gallons of water purchased to gallons of water billed to

customers. During the year ended December 31, 2007, the village deposited approximately \$38,000 in water and sewer fees and customer deposits.

- A. The village does not maintain a complete, accurate, and up-to-date listing of refundable deposits, and the village has not established a control account to track total liabilities related to the meter deposits. Village residents are required to pay a meter deposit before receiving water services. The village clerk records some of the meter deposits at the bottom of the monthly ledger billing sheets; however, there is no complete listing of deposits received, disbursed or applied to final billings, and amounts on hand.

The village should establish a control account liability balance for the total meter deposits. In addition, the village should prepare a detailed listing of all meter deposits received and disbursed, and periodically reconcile the deposits on hand to the control account balance. These procedures would help ensure that sufficient funds are available for the payment of all liabilities.

- B. The village prepares a monthly ledger of water and sewer billings and receipts. Receipts recorded on the ledger are not reconciled to deposits, and our review noted that some amounts received and deposited were not recorded on the ledgers. In addition, receipts are usually only deposited once a month. To ensure water and sewer receipts are properly accounted for and deposited, all receipts should be recorded as received on either the monthly ledger or some other record and deposited timely. In addition, the receipts should be reconciled to bank deposits.

- C. The village does not reconcile the total billings, payments received, and amounts remaining unpaid. The Village Clerk periodically prepares a listing of delinquent accounts, and the delinquent listing at December 31, 2007, showed a total of 12 delinquent accounts totaling \$1,353; however, because of the lack of reconciliations and the unrecorded receipts on the monthly ledger as noted in Part B above, the amounts recorded by the Village Clerk as unpaid delinquent accounts do not appear accurate.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. Complete documentation of the reconciliations should be retained to support conclusions and any corrections made.

- D. The village has not adopted comprehensive written policies and procedures to follow up on delinquent water/sewer accounts. While village officials indicated some procedures are in place, including the assessment of interest and penalties on delinquent accounts, it appears these procedures are not consistently followed. For example, a board member had past due amounts for sewer/water services during 2007, which totaled \$300 at December 31, 2007, and it appears no interest or penalties have been assessed. In addition, village officials indicated that shut-off of services is rarely performed.

Comprehensive written policies and procedures are necessary so that staff will have clear guidelines to follow, and collection actions will be consistently and fairly applied to all customers.

- E. The village is currently not comparing the total gallons of water billed to customers to the gallons of water purchased from the Sullivan Public Water District #1. The village was documenting these comparisons through August 2006. The Village Clerk indicated he still compares this information but does not document his review. During 2006, the village documented that the gallons of water purchased exceeded the gallons of water billed from 6 to 24 percent. The Public Service Commission generally recommends such differences be investigated if unbilled water usage exceeds 15 percent.

To help detect any significant water loss on a timely basis and to help ensure all water usage is properly billed, the village should prepare and maintain comparisons of water purchased to water billed on a monthly basis and investigate significant differences.

WE RECOMMEND the Board of Trustees:

- A. Maintain a complete listing of meter deposits, establish a control account of the refundable deposits, and periodically reconcile the listing to monies held by the village.
- B. Ensure that all water/sewer receipts are recorded when received and deposited timely. In addition, the receipts as recorded on the accounting records should be reconciled to bank deposits.
- C. Perform monthly reconciliations of sewer and water billings, collections, and receivables to ensure the accounting records are in balance and accurate records of delinquent accounts are maintained.
- D. Develop comprehensive written policies for follow-up on delinquent water/sewer accounts and consistently enforce those policies.
- E. Perform monthly comparisons of the total gallons of water billed to the total gallons of water purchased. Any significant differences should be documented and investigated.

AUDITEE'S RESPONSE

- A. *We will do the best we can to determine the amount of customer deposits on hand. Many long-term customers appear to have paid deposits as low as \$5, while current water/sewer customers are charged \$150 and current water only customers are charged \$65.*

- B. *Deposits will be made as timely as possible, considering the expense of driving to the bank. The current village clerk indicated that he believes that all receipts are now being recorded on the monthly ledgers.*
- C. *We agree and will attempt to implement this recommendation.*
- D. *We agree and will develop formal policies and consistently enforce those policies.*
- E. *We agree and will implement.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

VILLAGE OF HUMPHREYS
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Village of Humphreys is located in Sullivan County. The village was incorporated in 1880. The population of the village in 2000 was 164.

The village government consists of a five-member board of trustees. The members are elected for 2-year terms. The chairman is appointed by the board from the members. The Board of Trustees during the year ended December 31, 2007, are identified below.

<u>Board of Trustees</u>	<u>Dates of Service During the Year Ended December 31, 2007</u>	<u>Compensation Paid for the Year Ended December 31, 2007</u>
Marion Carlock, Chairman (1)	January to December 2007	\$ 0
Jeannie Thompson, Member (1) (3)	September to December 2007	0
Jack McDonald, Chairman (1) (2)	January to September 2007	220
Helen Blackburn, Member	January to December 2007	0
Michael Webb, Member (3)	January to December 2007	0
Eddie Stevens, Member (3)	January to December 2007	0

- (1) Jack McDonald resigned from the board in September 2007 and was replaced by Jeannie Thompson. Marion Carlock was appointed chairman in September 2007.
- (2) Compensation to perform various services for the village, such as cutting trees and investigating water leaks.
- (3) In April 2008, Jack McDonald and John Garrison were elected to the board to replace Jeannie Thompson and Eddie Stevens, and Michael Webb was appointed chairman.

Other Officials	Dates of Service During the Year Ended December 31, 2007	Compensation Paid for the Year Ended December 31, 2007
Terry Hudson, Village Clerk/Collector (3)	September to December 2007	\$ 2,035
Janet Elliott, Village Clerk/Collector (4)	January to August 2007	3,454

(3) Includes \$1,135 salary for serving as Village Clerk and \$900 for meter-reading services.

(4) Includes \$3,200 salary for serving as Village Clerk and \$254 in commissions for collecting village property taxes.

In addition to the officials identified above, the city employed two part-time employees during fiscal year ended December 31, 2007.

Assessed valuations and tax rates for 2007 were as follows:

ASSESSED VALUATIONS

Real estate	\$ 160,898
Personal property	99,069
Total	<u>\$ 259,967</u>

TAX RATES PER \$100 ASSESSED VALUATION

	Rate
General	\$.75
Parks and Recreation	.50
Lights*	.00
Streets*	.00

* The village voluntarily rolled back these levies to zero for 2007. The rate ceilings for these levies were \$1.50 for lights and \$1.00 for streets.

A summary of the village's financial activity for the year ended December 31, 2007, was obtained from the village bank account information and is presented on the following page:

	General Fund	Tax Collection Fund	Water and Sewer Fund	Bond Reserve Fund	Street Fund	Light Fund	Park Fund	Total
RECEIPTS								
Property taxes	\$	2,678						2,678
Motor fuel and vehicle fees					7,114			7,114
Water and sewer fees			38,253					38,253
Interest			696	892	2,113			3,701
Other	21							21
Total Receipts	21	2,678	38,949	892	9,227	0	0	51,767
DISBURSEMENTS								
Wages and salaries	443		7,589					8,032
Payroll taxes			431					431
Commissions		254						254
Insurance	806		2,185					2,991
Water purchases			10,873					10,873
Electricity	81		516			649		1,246
Water testing and repairs			2,069					2,069
Maintenance and mowing	275		250				1,025	1,550
Gravel					345			345
Street lights					1,637			1,637
Debt service			4,116					4,116
Sales tax			483					483
Refunds			388					388
Other	188	24	3,340		195		21	3,768
Total Disbursements	1,793	278	32,240	0	2,177	649	1,046	38,183
RECEIPTS OVER (UNDER)								
DISBURSEMENTS	(1,772)	2,400	6,709	892	7,050	(649)	(1,046)	13,584
CASH, JANUARY 1, 2007	2,620	1,925	3,965	32,638	69,566	2,130	2,010	114,854
CASH, DECEMBER 31, 2007	\$ 848	4,325	10,674	33,530	76,616	1,481	964	128,438