



Office of Missouri State Auditor
Nicole Galloway, CPA

Village of Centertown

Report No. 2018-031

May 2018

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Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Village of Centertown

Accounting Controls and Procedures	The former Village/Waterworks Clerk did not perform bank reconciliations for any of the village's 6 bank accounts for the year ended May 31, 2017. The Board of Trustees could not provide a budget for the year ended May 31, 2017, and there was no documentation to indicate the Board had approved a budget. The village did not publish financial statements as required until the semiannual financial statement for the 6 months ended November 30, 2017, was published in the December 6, 2017, newspaper. The former clerk did not maintain a capital asset list or perform a periodic inventory of capital assets. The current clerk does not restrictively endorse checks or money orders until a deposit is prepared.
Payroll Controls and Procedures	The village did not ensure payroll records were accurate. The village did not have an ordinance indicating the pay rate for the former clerk.
Utilities	The village does not periodically reconcile customer refundable water security deposit balances reported in the utility system to the security deposit bank account. Penalties were incorrectly assessed twice during one month for 3 of the 60 delinquent water accounts tested.
Sunshine Law Compliance	The former clerk did not prepare minutes for all Board meetings. The village's closed meeting procedures did not always comply with the Sunshine Law.
Data Backup	Data backups are not stored at an offsite location, and village officials do not periodically test backup data.

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

*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.

Village of Centertown

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NICOLE GALLOWAY, CPA

Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Village of Centertown. We have audited certain operations of the village in fulfillment of our duties. The scope of our audit included, but was not necessarily limited to, the year ended May 31, 2017. The objectives of our audit were to:

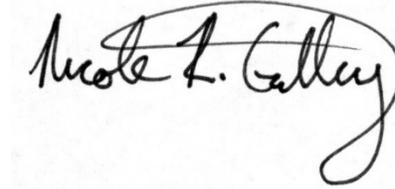
1. Evaluate the village's internal controls over significant management and financial functions.
2. Evaluate the village's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the 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. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and 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 applicable 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.

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 village's management and was not subjected to the procedures applied in our audit of the village.

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 Village of Centertown.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Randall Gordon, M.Acct., CPA, CGAP
Audit Manager:	Lori Melton, M.Acct., CPA
In-Charge Auditor:	Michelle Pummill, CFE
Audit Staff:	Hunter O'Donnell, M.Acct.

Village of Centertown

Management Advisory Report

State Auditor's Findings

1. Accounting Controls and Procedures

Numerous weaknesses exist with the village's accounting controls and procedures. During the year ended May 31, 2017, village receipts totaled \$136,478 for all funds.

1.1 Bank reconciliations

The former Village/Waterworks Clerk (clerk) did not perform bank reconciliations for any of the village's 6 bank accounts for the year ended May 31, 2017. The current clerk began performing bank reconciliations for the August 2017 bank statements.

Monthly bank reconciliations help ensure bank and book balances are in agreement and errors are detected and corrected timely.

1.2 Budgets

The Board of Trustees could not provide a budget for the year ended May 31, 2017, and there was no documentation to indicate the Board had approved a budget. However, there is an approved budget for the year ended May 31, 2018.

Section 67.010, RSMo, requires the budget to present a complete financial plan for the ensuing budget year and outlines the various information be included in the budget. 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 village operations. It also assists in setting the tax levy, utility rates, and informing the public about village operations and current finances. Once the village 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.

1.3 Published financial statements

The village did not publish financial statements as required until the semi-annual financial statement for the 6 months ended November 30, 2017, was published in the December 6, 2017, newspaper. The village now publishes the financial statements in local newspapers semiannually. Without publishing the financial statements, information regarding the village's financial activity and condition was not available to citizens.

Section 80.210, RSMo, requires the Board prepare and publish semiannual financial statements in a local newspaper, or if no local newspaper, to post semiannual financial statements in at least six of the most public places in the village.

1.4 Capital assets

The former clerk did not maintain a capital asset list or perform a periodic inventory of capital assets. The current clerk began creating a capital asset list in May 2017; however, this list does not include all necessary information for each item, such as the original cost or value of the item.



Village of Centertown
Management Advisory Report - State Auditor's Findings

Adequate property records and performance of annual physical inventories are necessary to secure better internal control over village property and provide a basis for determining proper insurance coverage.

1.5 Restrictive endorsement The current clerk does not restrictively endorse checks or money orders until a deposit is prepared. All 23 checks received totaling \$1,182, counted during a cash count on February 1, 2018, had not been restrictively endorsed.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.

Recommendations

The Board of Trustees:

- 1.1 Ensure monthly bank reconciliations continue to be prepared for all bank accounts.
- 1.2 Prepare annual budgets that contain all information required by state law and ensure the Board's approval of the budgets are documented in the Board minutes.
- 1.3 Publish semiannual financial statements as required by state law.
- 1.4 Maintain an inventory list and indicate all applicable information, conduct a physical inventory count on a periodic basis, and reconcile the inventory on hand to the inventory records.
- 1.5 Restrictively endorse checks and money orders immediately upon receipt.

Auditee's Response

- 1.1 *As noted in your report, the current clerk started providing the Board bank reconciliations in August 2017. These reconciliations are also provided to the public in attendance at Board meetings and are posted to the village's website.*
- 1.2 *As noted in your report, the Board approved a budget for the year ended May 31, 2018. This budget was reviewed and adjusted in November 2017. The budget for the year ending May 31, 2019, was approved on April 24, 2018. Ordinance 169, Village Budget, and Ordinance 170, Waterworks Budget, were published and have been posted to the village's website.*
- 1.3 *The Board will continue to publish semiannual financial statements in the Jefferson City News Tribune and the California Democrat. Statements will also be posted to Centertown's post office, the village hall's bulletin board and the village's website. The next semiannual*



Village of Centertown
Management Advisory Report - State Auditor's Findings

financial statement will be published no later than June 10, 2018, for the period December 1, 2017, through May 31, 2018.

1.4 *The capital asset list created by the current clerk will be updated for the missing information, such as current values of items, at the next annual inventory, to take place within the next month.*

1.5 *The current clerk endorses checks and money orders "For Deposit Only" immediately upon receipt since February 1, 2018, following recommendation from the auditor during the cash count.*

2. Payroll Controls and Procedures

Improvement over payroll controls and procedures is needed. The village paid payroll expenses of approximately \$40,000 for the year ended May 31, 2017.

2.1 Time records

The village did not ensure payroll records were accurate. During our review of 8 payroll records, we noted the following problems.

- The village did not maintain a timesheet or other documentation for hours worked for 2 records tested.
- Timesheets or other documentation for hours worked were not signed by the individual being paid for 3 records tested.
- One paycheck was approved by the former clerk and a Board member instead of the required 2 Board members.

To adequately account for all payroll expenses and ensure the accuracy of hours worked, village employees should prepare and sign timesheets, and timesheets should contain documented supervisory or independent reviews and be approved by the Board. In addition, the Fair Labor Standards Act requires records of actual time worked by employees be maintained.

2.2 Rate of pay

The village did not have an ordinance indicating the pay rate for the former clerk. The former clerk was paid \$5 more per hour than the \$15 pay rate approved in ordinances for other clerks. The former clerk was paid \$17,430 during the year ended May 31, 2017. This amount was \$4,357.50 more than what other clerks would have been paid.

To ensure amounts paid to employees are accurate, the employee's authorized pay rate, and any subsequent changes, should be documented and approved by the Board. Without documentation of approved pay rates, there is less assurance payments to employees are properly authorized.



Village of Centertown
Management Advisory Report - State Auditor's Findings

Recommendations

The Board of Trustees:

- 2.1 Maintain documentation for time worked that is prepared and signed by employees and reviewed and approved by the Board.
- 2.2 Ensure employees are paid at an approved rate.

Auditee's Response

- 2.1 *Since May 2017, 3 of the 4 village employees prepare their own timesheets for Board review prior to issuance of payroll checks. The fourth employee's timesheet is prepared by his supervisor. Following a recommendation from the auditor during payroll review, this employee is also signing his timesheet since March 2018.*
- 2.2 *During the January 30, 2018, Board meeting, a pay scale was approved for all employees.*

3. Utilities

Accounting for water customer deposits and penalty assessments need improvement.

3.1 Water deposits

The village does not periodically reconcile customer refundable water security deposit balances reported in the utility system to the security deposit bank account. New customers are required to pay a \$100 refundable security deposit before receiving water service. The current clerk has tried to identify the water security deposits in the bank account, but these deposits are not included in the utility system for all customers. While reviewing the report of security deposits, she has noted balances for individuals who are no longer customers and is taking steps to refund money owed. She created a report of customer security water deposits totaling \$5,875 held as of January 31, 2018. The report included \$5,425 for active accounts and \$450 for inactive accounts. The report could not be reconciled to the security deposit book balance of \$12,674 at January 31, 2018, indicating an unidentified amount of \$6,799 in the security deposit bank account.

Refundable water security deposit monies are restricted funds held for customers. The Board should review water customer security deposit records to ensure all customer security deposits are accounted for properly. In addition, the clerk should maintain an accurate listing of all water security deposits held and reconcile the list monthly to monies held in the security deposit bank account.

3.2 Water account penalties

Penalties were incorrectly assessed twice during one month for 3 of the 60 delinquent water accounts tested.

Village policy as printed on each customer's monthly statement requires a 10 percent penalty be added to delinquent accounts.



Recommendations

The Board of Trustees:

- 3.1 Ensure an accurate list of water security deposits is prepared and reconciled to monies in the security deposit bank account. Any discrepancies should be investigated and resolved.
- 3.2 Assess penalties on delinquent water accounts in accordance with village policy.

Auditee's Response

- 3.1 *We agree with the recommendation and are evaluating how to properly address the issue.*
- 3.2 *During the audit process it was discovered that the penalty assessed on October 17, 2016, was doubled. This affected 26 customers. The current clerk will provide a letter of explanation to each customer as well as a credit toward their June bill. We will add an additional review step during the billing phase to ensure any further duplication is corrected prior to customers receiving their bill.*

4. Sunshine Law Compliance

The village did not always ensure compliance with the Sunshine Law.

4.1 Meeting minutes

The former clerk did not prepare minutes for all Board meetings. Minutes were not prepared for meetings on September 6, 2016, October 11, 2016, January 10, 2017, March 28, 2017, and April 25, 2017. The current clerk has prepared minutes for all meetings since she was hired in May 2017.

Section 610.020.7, RSMo, requires meeting minutes be maintained as a record of business conducted and to provide an official record of Board actions and decisions. Meeting minutes should include the date, time, place, members present, members absent, and a record of votes taken.

4.2 Closed meetings

The village's closed meeting procedures did not always comply with the Sunshine Law. The Board went into a closed session 5 times during the year ended May 31, 2017. We noted the following problems with closed Board meetings and minutes.

- The open meeting agenda for a May 2017 meeting did not indicate the Board would be going into a closed meeting.
- We identified discussions in 3 closed meetings that are not allowed by law. The closed meeting minutes indicated discussions occurred regarding position descriptions, election of the chairman and pro-tem, the sewer system, the water tower, bank signature card changes, insurance services, road work to be completed, the need for a village clerk, notes to be added to the water bill, and the resignation letters of Board members.



Village of Centertown
Management Advisory Report - State Auditor's Findings

Section 610.020.2, RSMo, requires posting notice of meetings at least 24 hours prior to the meeting. Section 610.022, RSMo, indicates the notice shall indicate the potential for a closed meeting and limits discussions in closed meetings to only those reasons referenced by a specific section of law permitting closure in the vote to close the meeting.

Recommendations

The Board of Trustees:

- 4.1 Maintain complete and accurate minutes for all meetings.
- 4.2 Ensure notices for all meetings are posted and topics discussed in closed meetings are allowed by law.

Auditee's Response

- 4.1 *As noted in your report, the current clerk has been preparing minutes for all meetings since she was hired in May 2017. The minutes are also posted to the village's website as well as the village hall's bulletin board.*
- 4.2 *Meeting notices are posted at village hall, Centertown's post office, and 4 local businesses at least 24 hours prior to all meetings. Notices are also posted to the village's website. We will ensure agendas include the potential reason for going into closed session and the discussions during the closed meetings stay on the approved topics. Board members are highly encouraged to attend training on the Missouri Sunshine Law by the Missouri Municipal League and Missouri Rural Water Association to alleviate any further issues.*

5. Data Backups

Data backups are not stored at an offsite location. In addition, village officials do not periodically test backup data. Failure to store backup data at a secure offsite location results in the data being susceptible to the same damage as the data on the computer.

To help prevent loss of information and ensure essential information and computer systems can be recovered, backups should be stored at a secure offsite location and tested on a periodic basis.

Recommendation

The Board of Trustees ensure data backups are stored in a secure offsite location and tested on a regular, predefined basis.

Auditee's Response

The current clerk is maintaining data backups onsite; however, it was recommended during the audit to maintain a second set offsite. On January 12, 2018, a second set was created and stored in the current clerk's home safe. On March 5, 2018, the village acquired a safety deposit box and is storing the second data backup disc at the bank. Backups are created quarterly. The current backup was tested on May 9, 2018. Future backups will be tested prior to storage.

Village of Centertown

Organization and Statistical Information

The Village of Centertown is located in Cole County. The village was incorporated in 1901. The village employed 4 part-time employees on May 31, 2017.

Village operations include water utilities and street maintenance.

Chairman and Board of Trustees

The village government consists of a five-member board of trustees. The members are elected for 2-year terms. The chairman, who is a member of the board, is elected for a 1-year term and presides over the board of trustees. The Board of Trustees at May 31, 2017, are identified below. The Board of Trustees are paid \$10 per hour.

Lucas Welch, Chairman¹
Jesse Corona
John Doyle
Heather Hunger¹
Celine Whitaker¹

¹ Lucas Welch, Heather Hunger, and Celine Whitaker took office on May 2, 2017, replacing Susan Gilliam, Nelda Hutinger, and Darron Jones.

Financial Activity

A summary of the village's financial activity for the year ended May 31, 2017, follows:

Village of Centertown
Schedule of Receipts, Disbursements, and Changes in Cash
Year Ended May 31, 2017

	General Fund	Waterworks Fund	Investment Funds (1)	Security Deposit Fund	Total
RECEIPTS					
Property tax	\$ 30,570	0	0	0	30,570
Sales tax	23,592	0	0	0	23,592
Motor fuel tax	11,112	0	0	0	11,112
Franchise tax	17,092	0	0	0	17,092
Reimbursements	2,780	0	0	0	2,780
Water sales	0	43,979	0	0	43,979
Reconnect fees	0	109	0	0	109
Collections fees	0	504	0	0	504
Interest earned	4,520	903	150	0	5,573
Miscellaneous	0	0	67	0	67
Security deposit	0	100	0	1,000	1,100
Total Receipts	<u>89,666</u>	<u>45,595</u>	<u>217</u>	<u>1,000</u>	<u>136,478</u>
DISBURSEMENTS					
Central administration	45,328	28,936	0	0	74,264
Water supply system	0	8,568	0	0	8,568
Highway and streets	2,440	0	0	0	2,440
Deposit refunds	0	0	0	75	75
Total Disbursements	<u>47,768</u>	<u>37,504</u>	<u>0</u>	<u>75</u>	<u>85,347</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>41,898</u>	<u>8,091</u>	<u>217</u>	<u>925</u>	<u>51,131</u>
TRANSFERS					
TRANSFERS IN					
Investment Funds	0	0	(459,969)	0	(459,969)
TRANSFERS OUT					
General Fund	386,333	0	0	0	386,333
Waterworks Fund	0	13,000	0	0	13,000
Investment Funds	0	0	60,636	0	60,636
Total Transfers	<u>386,333</u>	<u>13,000</u>	<u>(399,333)</u>	<u>0</u>	<u>0</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS AND TRANSFERS	<u>(344,435)</u>	<u>(4,909)</u>	<u>399,550</u>	<u>925</u>	<u>51,131</u>
CASH BALANCE, JUNE 1, 2016	445,734	92,458	85,617	10,672	634,481
CASH BALANCE, MAY 31, 2017	<u>\$ 101,299</u>	<u>87,549</u>	<u>485,167</u>	<u>11,597</u>	<u>685,612</u>

(1) The village used 3 different investment funds. All activity was consolidated when reporting the financial statements.