



CITY OF STOTTS CITY, MISSOURI  
YEAR ENDED DECEMBER 31, 1998

**From The Office Of State Auditor  
Claire McCaskill**

Report No. 2000-07  
February 7, 2000

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

February 2000

**Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the City of Stotts City, Missouri.**

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The City of Stotts City does not adequately segregate accounting and bookkeeping duties. Deposits are not made intact on a timely basis and the City Clerk routinely cashes personal checks. The City Collector is responsible for collecting utility payments and turning the monies over to the City Clerk for deposit. The City Clerk was only depositing a portion of the utility payments until November and December, 1998, when it appears she reimbursed the account for monies not previously deposited.

Based on our comparison of City Collector records to deposits made by the City Clerk, it appears the City Clerk would have had \$5,299 in undeposited receipts (including approximately \$1,100 in cash payments) at the end of October, 1998.

The City Clerk indicated she routinely cashed personal checks for herself and friends from utility receipts. She cashed one of her personal checks dated November 3, 1998 which was not deposited until December 16, 1998. It appears the City Clerk was borrowing from the city in this instance.

The City Clerk also indicated she would make loans to individuals by cashing their checks with city proceeds and holding their checks until they indicated they could cover their checks or replace it with cash. The City Clerk indicated several of the individuals did not cover their checks and she personally paid back the amounts not repaid to the city; however, the city records do not support this explanation regarding repayment.

These practices represent a poor control over cash receipts and should be discontinued. To ensure proper control and maintain accountability over cash, receipts should be deposited intact on a timely basis.

The city has several bank accounts that are non-interest bearing. Some employees and officials who collect monies or sign checks are not adequately bonded and checks are sometimes signed in advance by the Mayor.

(over)

YELLOW SHEET

Utility accounting and bookkeeping duties are not adequately segregated. Improvements are needed regarding the city's receipt procedures and tracking of delinquent customers. Utility billings are not reconciled to payments received and amounts remaining unpaid. The number of gallons of water billed to customers is not reconciled to the gallons of water pumped by the city. The balance in the meter deposit account is not reconciled to actual meter deposits. The board does not periodically review and establish water and sewer rates.

The city does not prepare or adopt annual budgets, and annual audits are not obtained in a timely manner. Semi-annual financial statements have not been published and annual financial reports are not submitted to the State Auditor's office as required by state law.

The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Bids were either not solicited or bid documentation was not retained in some instances, including waste water treatment supplies and equipment (\$3,233), insurance (\$1,780), and auditing services (\$2,170).

City personnel indicated that telephone solicitation is occasionally used for purchases, but the price quotes have not been adequately documented to show that bids were solicited.

A formal bidding policy for major purchases based upon specified dollar amounts would provide a more efficient framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders.

Several hiring concerns and a city transaction dealing with relatives of city officials were noted that appear questionable.

During the year ended December 31, 1998, the city deposited \$10,081 of state motor vehicle-related receipts into the General Fund and incurred only \$580 of street-related expenditures. During the first four months of 1999, the city opened a separate account for motor vehicle related revenues and deposited \$1,097 of the \$2,088 received in this accounts. Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related revenues apportioned by the state of Missouri be expended for street-related purposes.

Improvements are needed regarding the city's ordinance book. Notice of the regular board meetings and the meeting's agenda are not posted. Board minutes do not identify the disbursements approved by the board at its monthly meeting. The city did not properly retain some city records and does not have a formal policy regarding public access to city records.

CITY OF STOTTS CITY, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT .....	1
HISTORY AND ORGANIZATION .....	2-5
MANAGEMENT ADVISORY REPORT .....	6-23
SUMMARY OF FINDINGS .....	7-8

Number

Description

1.	Expenditures .....	9
2.	Related Party Transactions .....	11
3.	City Utilities .....	12
4.	Accounting Controls and Procedures .....	15
5.	Ordinances, Board Meetings and Records .....	18
6.	Budgets, Audits, and Financial Reporting .....	20
7.	Restricted Revenues and City Streets .....	21
8.	City Property .....	22



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
City of Stotts City  
Stotts City, Missouri 65756

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Stotts City, Missouri. Our audit of the city included, but was not limited to, the year ended December 31, 1998. The objectives of this audit were to:

1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Stotts City, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill".

Claire McCaskill  
State Auditor

October 7, 1999 (fieldwork completion date)

## HISTORY AND ORGANIZATION

CITY OF STOTTS CITY, MISSOURI  
HISTORY AND ORGANIZATION

The city of Stotts City is located in Lawrence County. The city was incorporated in 1895 as a fourth-class city. The population of the city in 1990 was 235.

The city government consists of a mayor and a four-member board of aldermen. The four board members are elected for two-year terms. The mayor is elected a for two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officials at December 31, 1998, were:

<u>Elected Officials</u>	<u>Term Expires</u>	Actual Compensation for the Year Ended <u>December 31, 1998</u>	<u>Bond</u>
Jim Stearns, Mayor	April 2000	\$ 50	\$
Vicky Stearns, Alderman	April 2000	26	
Carol Estes, Alderman	April 2000	26	
Rodney White, Alderman*	April 1999	26	
Vacant, Alderman**	April 1999	26	
Cherri Stearns, City Collector***	April 1999	2,400	2,500
 <u>Other Principal Officials</u>			
Allene White, City Clerk/Treasurer		3,702	2,500
Charles Stearns, Utility Manager****		8,134	

\* Re-elected in April 1999 to another two-year term.

\*\* Jerry Daniels served as Alderman through November 1998, and was replaced in February 1999 by Diana Hill. Diana was elected in April 1999 to a two-year term.

\*\*\* Peggy Waltrip was elected in April 1999 to a two-year term.

\*\*\*\* Prior to February 1998, the city had two managers for the utility system. Charles Stearns served as the Sewer System Manager and Chris Stearns served as the Water System Manager.

Assessed valuation and tax rate information for 1998 are as follows:

ASSESSED VALUATION

	<u>1998</u>
Real estate	\$ 371,700
Railroad and utility	72,227
Personal property	<u>190,080</u>
Total	<u>\$ 636,007</u>

TAX RATE PER \$100 ASSESSED VALUATION

General Fund	\$	.43
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A summary of the financial activity for the city of Stotts City for the year ended December 31, 1998, is presented on the next page.



Year Ended December 31, 1998

	General Fund	Water Fund	Sewer Fund	Meter Deposit Fund	Other* Funds	Total
<b>RECEIPTS:</b>						
Motor fuel and motor vehicle fees	\$ 10,081	0	0	0	0	10,081
Property taxes	2,993	0	0	0	0	2,993
Interest	0	0	0	97	0	97
User fees	0	9,513	17,058	0	1,000	27,571
Franchise taxes	4,140	0	0	0	0	4,140
Other	364	0	0	0	0	364
Total Receipts	<u>17,578</u>	<u>9,513</u>	<u>17,058</u>	<u>97</u>	<u>1,000</u>	<u>45,246</u>
<b>DISBURSEMENTS:</b>						
Salaries	2,400	4,200	4,200	0	0	10,800
Wages and labor	1,658	2,219	1,669	0	0	5,546
Street maintenance	290	0	0	0	0	290
Maintenance and repairs	0	0	925	0	0	925
Auditing services	2,170	0	0	0	0	2,170
Property maintenance	900	0	375	0	0	1,275
Insurance and bonding	1,830	0	0	0	0	1,830
Postage, shipping and publications	301	126	212	0	0	639
Supplies	1,373	743	3,688	0	0	5,804
Utilities	3,312	1,894	1,667	0	0	6,873
Bond payment	0	0	5,880	0	0	5,880
Other	676	181	272	0	0	1,129
Total Disbursements	<u>14,910</u>	<u>9,363</u>	<u>18,888</u>	<u>0</u>	<u>0</u>	<u>43,161</u>
Receipts Over (Under) Disbursements	2,668	150	-1,830	97	1,000	2,085
Cash Balance, January 1,	<u>10,102</u>	<u>2,411</u>	<u>5,534</u>	<u>3,208</u>	<u>3,000</u>	<u>24,255</u>
Cash Balance, December 31,	<u>\$ 12,770</u>	<u>2,561</u>	<u>3,704</u>	<u>3,305</u>	<u>4,000</u>	<u>26,340</u>

\* Includes the following funds: Sewer Replacement & Extension Reserve, Sewer Bond Reserve, FMHA Wastewater Project, and CDBG Grant Fund.

MANAGEMENT ADVISORY REPORT

CITY OF STOTTS CITY, MISSOURI  
SUMMARY OF FINDINGS

1. Expenditures (pages 9-11)

The city has no formal bidding policy. Supporting documentation was not available for additional payments of \$1,302 made to the City Clerk and other employee reimbursements. The Mayor does not review related invoices or supporting documentation prior to signing checks. The city does not withhold any payroll taxes and forms 1099-Miscellaneous are not filed as required.

2. Related Party Transactions (pages 11-12)

Several hiring concerns and a city transaction dealing with relatives of city officials were noted that appear questionable.

3. City Utilities (pages 12-15)

Utility accounting and bookkeeping duties are not adequately segregated. Improvements are needed regarding the city's receipt procedures and tracking of delinquent customers. Utility billings are not reconciled to payments received and amounts remaining unpaid. The number of gallons of water billed to customers is not reconciled to the gallons of water pumped by the city. The balance in the meter deposit account is not reconciled to actual meter deposits. The board does not periodically review and establish water and sewer rates.

4. Accounting Controls and Procedures (pages 15-18)

Accounting and bookkeeping duties are not adequately segregated. Deposits are not made intact on a timely basis and the City Clerk indicated she cashed personal checks and held them until the individual said they were good or brought cash in to cover them. She said she personally paid back some of these undeposited checks; however, the city records do not support her repayment. The city has several bank accounts that are noninterest bearing. Some employees and officials who collect monies or sign checks are not adequately bonded and checks are sometimes signed in advance by the Mayor.

5. Ordinances, Board Meetings, and Records (pages 18-20)

Improvements are needed regarding the city's ordinance book. Notice of the regular board meetings and the meeting's agenda are not posted. Board minutes do not identify the disbursements approved by the board at its monthly meeting. The city did not properly retain some city records and does not have a formal policy regarding public access to city records.

6. Budgets, Audits, and Financial Reporting (pages 20-21)

The city does not prepare or adopt annual budgets, and annual audits are not obtained in a timely manner. Semi-annual financial statements have not been published and annual financial reports are not submitted to the State Auditor's office as required by state law.

7. Restricted Revenues and City Streets (pages 21-22)

The city does not properly account for some revenues which are restricted for specific uses. In addition, the city does not have formal plans for street construction, repair, or maintenance.

8. City Property (page 22)

The city does not maintain any fixed asset records for city property.

CITY OF STOTTS CITY, MISSOURI  
MANAGEMENT ADVISORY REPORT

1.

**Expenditures**

- A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Bids were either not solicited or bid documentation was not retained in some instances, including waste water treatment supplies and equipment (\$3,233), insurance (\$1,780), and auditing services (\$2,170).

City personnel indicated that telephone solicitation is occasionally used for purchases, but the price quotes have not been adequately documented to show that bids were solicited.

A formal bidding policy for major purchases based upon specified dollar amounts would provide a more efficient framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders.

Competitive bidding also helps ensure all parties are given equal opportunity to participate in the city's business. Not only can bids be handled by telephone quotation, but bids can also be obtained by written quotation, by sealed bid or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. The City Clerk is paid a monthly salary of \$200. In addition, checks were issued to the City Clerk totaling \$1,302 in 1998. The City Clerk indicated the payments were for "extra" hours worked, mileage, and miscellaneous supplies and expenses; however, there is no documentation to support these additional payments. Since the City Clerk's compensation and job duties have not been established by ordinance, it is unclear whether the City Clerk was to receive any additional compensation (See MAR #5). In addition, board minutes do not document whether the extra payments were specifically approved by the board.

The Utility Manager was paid \$3,134 in addition to his monthly salary of \$400 in 1998 (and approximately \$1,200 during the first four months in 1999). The additional amount was for extra hours worked, mileage, and miscellaneous supplies and expenses. The Utility Manager did submit a request for the additional pay. However, his request did not contain sufficient information such as the date when extra hours were worked, date of trip, trip origin, destination, and purpose for mileage requests. In addition, invoices for miscellaneous supplies and expenses reimbursed by the city were not maintained.

Failure to require adequate supporting documentation for expenditures increases the risk that the city will pay for items not intended for city purposes. To help ensure the propriety of all payments, documentation should be maintained to support all payments and all payments should be approved by the board. Also, without a detailed travel expense

report including documentation supporting the expenses claimed, the city cannot determine the propriety of payments made for travel expenses.

- C. The City Clerk prepares and signs checks and the Mayor also signs the checks; however, the Mayor does not review the related invoices or supporting documentation prior to signing the checks. To ensure all expenditures are properly reviewed and approved, the board should designate the Mayor or a board member to review the related invoices before the checks are signed.
- D. Vendor invoices or other supporting documentation were not retained for some expenditures. These expenditures included \$1,295 for mowing services during 1998 and \$60 for gift certificates. All expenditures should be supported by paid receipts or vendor invoices to ensure the obligations were actually incurred and the expenditures represent appropriate uses of public funds.
- E. The city does not withhold payroll taxes or pay the employer's share of social security on the compensation paid to city officials and employees. Internal Revenue Service Code requires employers to withhold federal income taxes, and Section 143.191, RSMo 1994, requires employers to withhold state income taxes from wages.

In addition, Section 105.300, RSMo 1994, defines an elective or appointed officer or employee of a political subdivision as an employee for social security purposes.

- F. The city did not file Forms 1099 with the Internal Revenue Service. The Internal Revenue Code requires payments of \$600 or more for services by nonemployees (other than corporations) be reported to the federal government on Forms 1099. During the year ended December 31, 1998 the city paid one individual \$1,295 for mowing and repairs.
- G. In March 1995, the city purchased a tractor for \$2,000 to be used for mowing city property. However, the city has not used the equipment and contracts with an individual to mow city property. The city paid \$1,185 for mowing services in 1998. The board needs to establish some plans for use of their equipment and determine whether the city has the financial resources necessary to maintain the equipment.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish formal bidding policies and procedures. In addition, documentation of the bidding process should be maintained in all cases.
- B. Review the additional payments to the City Clerk and Utility Manager and determine if the payments were proper. The board should require detailed travel expense reports be submitted and invoices or receipts to support expenses claimed for reimbursement.
- C. Designate the Mayor or a board member to review all supporting invoices before the checks are signed.
- D. Require adequate supporting documentation for all expenditures.
- E. Ensure federal and state income taxes, as well as social security taxes, are properly withheld and remitted for any wages and salaries paid. In addition, the city should ensure prior years' wages and salaries are properly reported to the IRS.

- F. Ensure that IRS Forms 1099 are filed as required for prior years as well as in the future.
- G. Review the needs of the city and determine the city's plans for use of city equipment.

**AUDITEES RESPONSE**

A. *We have made attempts to contact various suppliers in the past and will ensure we document our bidding efforts in the future.*

B. *The Board voted to allow additional compensation for city employees several years ago. We will ensure our ordinances reflect this in the future.*

C&D. *We agree with these recommendations.*

E&F. *We will consider implementing these recommendations.*

G. *We plan to sell the tractor.*

<b>2. Related Party Transactions</b>
--------------------------------------

A. We noted several instances of potential nepotism as follows:

- . Two of Mayor Stearns sons were employed by the city prior to 1998 in the water and sewer department. In February 1998, one of the sons resigned and the remaining son (and husband of Alderwoman Stearns) assumed the Water System Manager's duties. The board meeting minutes were not available to document discussion regarding hiring someone for this position. Alderwoman Stearns indicated to us that she abstained from voting on the hiring of her husband.
- . In April 1998, the city hired Alderwoman Estes' father-in-law to mow city property and make street sign repairs. Alderwoman Estes abstained from voting on the decision to hire her father-in-law; however, in June 1998, the board approved additional work to be performed by the Alderwoman's father-in-law at an increased rate of pay. Even though the city indicated she abstained from voting on the decision the board minutes did not document specifically whether she abstained from voting on the issue.

The appointment or hiring of a relative by a public official is prohibited by the Missouri Constitution. Article VII, Section 6 of the Missouri Constitution provides that any public official who names or appoints to public office or employment any relative within the fourth degree shall forfeit his office.

Because of the serious consequences which result in hiring a relative, the board should ensure its members abstain from any decision to hire a relative and ensure that action is fully documented in the board minutes.

B. The city charges a \$85 water hook-up fee and a \$150 sewer hook-up fee. In June and September 1998, the city installed two free meter connections on property owned by a

relative of a board member. According to the city, the connections were in exchange for the granting of an easement through the property approximately four years ago. Although the related board member was not on the board at the time, the agreement was not in writing and board minutes were not available to document any decisions made by the board regarding this issue.

Officers and agents of a city serve in a fiduciary capacity. Personal interests in business matters of the city create the appearance of conflicts of interest. To avoid the appearance of conflicts of interest, all transactions and agreements between the city and relatives of board members should be fully documented and approved by the Board of Aldermen, and written agreements should be prepared if necessary.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure future appointments comply with the restriction of Article VII, Section 6 of the Missouri Constitution in regard to the hiring of relatives. If a relative of a board member is considered for employment, that board member should abstain from voting on the issue and an adequate record of the abstention should be maintained.
- B. Avoid transactions that represent actual conflicts of interest or the appearance of conflicts of interest. City officials who have a conflict that is unavoidable should fully disclose their interest and should not vote on matters which involve them personally. City officials should ensure strict compliance with the law when conducting city business and should consider adopting a code of conduct for city officials.

**AUDITEES RESPONSE**

*This has been done in the past and will be adequately reflected in the minutes in the future. We agree with the recommendations.*

<b>3. City Utilities</b>
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The city provides water and sewer to approximately 90 customers. Our review of the billing and receipt process and internal controls revealed the following areas of concern:

- A. The City Collector is responsible for billing, collecting, and recording all utility payments. Neither the board nor other personnel independent of the billing and collection functions provide adequate supervision or an independent review of the work performed by the City Collector.

To safeguard against possible loss or misuse of funds, internal controls should provide for reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. An adequate system of internal controls requires segregation of duties. The Board of Aldermen should, at a minimum, designate someone independent of the process to perform and document periodic reviews of the records and procedures. Supervisory or independent review and approval of the rate calculations and adjustments helps to ensure such transactions are proper and reduces the possibility that improper or erroneous adjustments would go undetected.



- B. The City Collector does not record utility payments on the utility stubs. Utility stubs are discarded by the City Collector after the utility payment is received. Documentation of payments is noted on individual ledger sheets maintained for each customer account; however, the date of payment and actual amount received is not indicated on the ledger sheets. No review or reconciliation of recorded receipts to amounts transmitted to the City Clerk is performed.

To ensure all utility payments are properly recorded and transmitted, utility stubs should be retained noting the method of payment and the composition of the receipts should be reconciled to the amounts transmitted to the City Clerk.

- C. Monthly lists of delinquent customers are prepared by the City Collector; however, the lists do not include any prior delinquent amounts for each customer. In addition, the list is not provided to the Board of Aldermen to periodically review delinquent accounts.

To ensure adequate follow-up procedures are performed, a listing of all delinquent amounts should be maintained. In addition, the board should review delinquent accounts for collectibility.

- D. The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts remaining unpaid for water and sewer services.

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

- E. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. The Utility Manager tracks gallons of water pumped and estimated the system was losing approximately 30 to 40 percent of its water pumped.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water pumped to the gallons of water billed on a monthly basis and investigate significant differences. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

- F. City residents are required to pay a meter deposit before receiving water and sewer services. The City Collector records the meter deposits on her individual account ledger sheets and the monies are deposited along with the other utility receipts. At December 31, 1998, the city had \$3,305 set aside in a separate savings account for meter deposits. Currently, the city collects a \$50 deposit, however, varying amounts ranging from \$5 to \$25 have been collected in past years. The total amount of meter deposits recorded on the individual account ledger sheets totals only \$1,800. This amount does not reconcile to the balance in the applicable bank account for several reasons:

1. The city is unsure of the amount of deposit paid by many residents.
2. Interest earned on the balances has accumulated in the account.

The city needs to identify all customer deposits currently held by the city and update the permanent record of this information. This detailed listing of customer deposits could then be reconciled to monies in the savings account. Without these reconciliations, the possibility of errors going undetected is increased.

- G. The city has not periodically performed formal reviews of the water and sewer rates. The city's sewer rate ordinance passed on May 20, 1997, set sewer rates for the next 12 months. The city has not formally reviewed the adequacy of sewer rates since that time. The mayor indicated water rates have been unchanged for about the last four years.

Section 67.042, RSMo 1994, provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of such service. However, the board did not prepare a statement of costs to maintain the sewer system as required when the rates were increased in 1997.

Water and sewer fees are user charges which should cover the cost of providing the related services. The city should perform periodic detailed reviews of the costs of providing these services and set rates appropriately. Preparation of a statement of costs would allow the city to determine the rates necessary to support current and future operations as well as provide documentation to customers of the rationale behind the rates.

**WE RECOMMEND** the Board of Aldermen:

- A. Adequately segregate the accounting duties of the City Collector or designate someone independent of the process to perform and document periodic reviews of the records, procedures and rate calculations and adjustments made to the water and sewer billings.
- B. Require the City Collector to record the method and date of payment on the utility stubs and reconcile them to the amounts transmitted to the City Clerk. The utility stubs should be retained to document the payments received.
- C. Maintain a listing of delinquent accounts which documents the respective delinquent amounts. In addition, the listing should be reviewed by the board.
- D. Perform monthly reconciliations of the amounts billed to amounts collected and delinquent accounts.
- E. Compare gallons of water pumped to gallons billed on a monthly basis. Any significant differences should be documented and investigated.
- F. Ensure the city maintains a listing of water meter deposits and periodically reconcile the listing to monies held by the city. Excess amounts identified should be transferred from the water meter bank accounts and made available for use in the Water and Sewer Fund.
- G. Perform periodic reviews of the costs to maintain utility services, and establish rates to ensure revenues are adequate. In addition, a statement of the costs to maintain funding of the service should be prepared, as required by state law, before enacting any rate increase.

**AUDITEES RESPONSE**

A-C,  
E&F. *We agree with these recommendations.*

D&G. *We will review these recommendations.*

<b>4. Accounting Controls and Procedures</b>
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- A. The Board of Aldermen has not appointed a separate individual to serve as City Treasurer. The City Clerk also serves as City Treasurer, and with the exception of the functions related to the collection of utility payments, this individual is responsible for most of the record keeping duties of the city. These duties include depositing all utility monies, recording and depositing all other city monies, preparing invoices for payments, preparing and co-signing checks, performing bank reconciliations, and preparing monthly financial reports. Neither the board nor other personnel independent of the cash custody and record keeping functions provide adequate supervision or an independent review of the work performed by the city clerk.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector or any two of these three offices, by the same person at the same time would be incompatible. Holding any two of these three offices does not allow the segregation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. In addition, the board should require someone independent of the cash custody and record keeping functions to perform periodic reconciliations of receipts to deposits, invoice files to checks issued, and review bank statements and bank reconciliations.

- B. Deposits are only made approximately once a month. On April 6, 1998, \$939 was deposited which included some receipts held over fifty days. Receipts are not always kept in a secured location until the deposit. In addition, checks and money orders are not restrictively endorsed until the deposit is prepared, rather than when received. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, receipts should be restrictively endorsed upon receipt, kept in a secure location and deposited intact daily or when accumulated receipts exceed \$100.
- C. Monies are not deposited intact by the City Clerk and are sometimes held for extended periods of time. The City Collector is responsible for collecting utility payments and turning the monies over to the City Clerk for deposit. The City Clerk was only depositing a portion of the utility payments until November and December, 1998, when it appears she reimbursed the account for monies not previously deposited.

1998		City Collector (Collected)	City Clerk (Deposited)	Deposits Over (Under) Collections	Cumulative Deposits Over (Under) Collections
March	\$	2,083	0	(2,083)	(2,083)
April		1,859	3,514	1,655	(428)
May		1,981	1,982	1	(427)
June		1,998	1,427	(571)	(998)
July		2,059	0	(2,059)	(3,057)
August		2,201	2,954	753	(2,304)
September		1,928	1,447	(481)	(2,785)
October		2,514	0	(2,514)	(5,299)
November		2,227	5,964	3,737	(1,562)
December		3,174	4,988	1,814	252
Totals	\$	22,024	22,276	252	

Based on our comparison of City Collector records to deposits made by the City Clerk, it appears the City Clerk would have had \$5,299 in undeposited receipts (including approximately \$1,100 in cash payments) at the end of October, 1998.

The City Clerk indicated she routinely cashed personal checks for herself and friends from utility receipts. She cashed one of her personal checks dated November 3, 1998 which was not deposited until December 16, 1998. It appears the City Clerk was borrowing from the city in this instance.

The City Clerk also indicated she would make loans to individuals by cashing their checks with city proceeds and holding their checks until they indicated they could cover their checks or replace them with cash. The City Clerk indicated several of the individuals did not cover their checks and she personally paid back the amounts not repaid to the city.

The City Clerk's explanation is not supported by the bank deposits reviewed during this time period. We were unable to identify any checks or cash deposited that would represent repayment by the City Clerk. Due to the lack of controls and the inadequacy of the city records, we have no assurance that payments received by the city were properly deposited.

These practices represent a poor control over cash receipts and should be discontinued. To ensure proper control and maintain accountability over cash, receipts should be deposited intact on a timely basis.

- D. At December 31, 1998, the city had six bank accounts with a total cash balance of approximately \$27,000. Of this amount, the city had approximately \$10,500 in non-interest bearing checking accounts. To maximize the interest earnings of the city, monies should be maintained in interest bearing accounts when possible.

- E. Checks issued on the bank accounts require signatures of both the City Clerk and Mayor; however, checks are sometimes signed in advance by the Mayor. Signing checks in advance does not allow for proper review of the documentation to support the disbursement and diminishes the control intended by dual signatures.
- F. Some employees and officials who collect monies or sign checks are not adequately bonded. The City Clerk and City Collector are each covered by a \$2,500 bond; however, this bond coverage may not be adequate based on annual receipts exceeding \$44,000 in 1998. In addition, the Mayor signs checks but is not bonded. The city's revenue bond covenant requires all officers and employees of the city handling funds and accounts to be bonded in each fiscal year by an amount not less than the total amount of principal and interest becoming due on all obligations of the city during the fiscal year (approximately \$6,000). Failure to properly bond all persons with access to monies exposes the city to risk of loss.
- G. Voided checks are not always properly defaced and retained. Voided checks are torn up and discarded. To ensure all checks are properly accounted for, all voided checks should be properly defaced and retained.

**WE RECOMMEND** the Board of Aldermen:

- A. Consider appointing separate individuals to the position of City Clerk and City Treasurer. If this is not possible, at a minimum, procedures for an adequate independent review of the record keeping functions should be established.
- B. Restrictively endorse checks and money orders immediately upon receipt, keep receipts in a secure location until deposited, and deposit all monies intact daily or when receipts exceed \$100.
- C. Require all receipts be deposited intact and ensure the practice of cashing personal checks and making loans is discontinued.
- D. Maintain city funds in interest bearing accounts when possible.
- E. Discontinue the practice of signing checks in advance.
- F. Review the amount of bond coverage for all individuals with access to monies and consider obtaining bond coverage for the Mayor.
- G. Deface and retain all voided checks.

**AUDITEES RESPONSE**

*A&F. We will review this recommendation.*

*B&D. We are working on implementing these recommendations.*

*C. We will review this situation and take appropriate action. The City Clerk no longer has access to utility proceeds.*

*E&G. We agree with these recommendations.*

<b>5. Ordinances, Board Meetings, and Records</b>
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- A. Our review of the city ordinances disclosed the following concerns:
1. Some of the city's ordinances could not be accounted for and the city indicated one of the ordinance books was missing. The city was unable to locate the ordinances establishing water rates and water hookup fees. Also, a review of the city's existing ordinance book indicated ordinances are not sequentially numbered and there was no index of all ordinances passed by the city. The city is unable to determine the status of some of the ordinances.
  2. Compensation and duties of all city officials and employees are not set by ordinance. The city has ordinances for the water system related compensation and duties of the City Collector and Utility Manager, however, the ordinances do not address sewer related compensation and duties. Also, the city has not adopted an ordinance establishing the term of office for the City Clerk. Section 79.270 and 79.290, RSMo 1994, require the compensation and duties of city officials to be set by ordinance. Section 79.320, RSMo 1994, requires the term of office of the City Clerk be fixed by ordinance.
  3. The city has not prepared ordinances to document the approved tax levy for each year. Section 94.210, RSMo 1994, states the board of aldermen shall fix the annual tax rate levy by ordinance for each tax year. In addition, the city does not hold public hearings on the proposed property tax rates. Section 67.110, RSMo 1994, requires each governing body to hold at least one public hearing prior to approval of the proposed tax rates at which citizens may be heard. The section also provides guidance on what information is to be included at the public hearing. Ordinances have also not been established to set the city's current water meter deposit amount.

Since the ordinances represent legislation which has been passed by the Board of Aldermen to govern the city and its residents, it is important that the city ordinances be complete, well-organized, and current. Such items as duties and compensation of city officials and the annual tax levy should be set forth in the ordinances to give the taxpayers information on how the city is to be governed.

- B. The Board of Aldermen holds regular meetings on the third Tuesday of every month. Notice of the regular board meeting and the meeting's agenda is not posted. Section 610.020, RSMo, 1994 requires notice of each meeting and its tentative agenda to be given at least twenty-four hours in advance, or if not feasible, reasons are to be documented in the board minutes.
- C. The board minutes do not identify the disbursements approved by the board at its monthly meetings. The only reference to board approval is a notation that a motion was made and approved to pay bills.

To adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed, or initialed by the aldermen to denote their approval, and retained in the official minutes.

- D. The city did not properly retain some city records. Minutes for several council meetings could not be located. In addition, the City Collector discarded all utility stubs after collections were turned over to the City Clerk.

All city financial records should be retained at least until such time as they are audited. All significant records (ordinances, minutes, contracts, etc.) should be maintained in a secure location.

- E. The city does not have a formal policy regarding public access to city records. A formal policy regarding access to city records would establish guidelines for the city to make records available to the public. This policy should establish a person to contact and an address to mail requests for access to records. Section 610.023, RSMo 1994, lists requirements for making city records available to the public.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure a complete and updated set of ordinances is maintained. This would include passing new ordinances where appropriate and required. In addition, the city should consider establishing an index of all future city ordinances passed and rescinded. Also, the Board should hold public hearings on proposed property tax rates as required by state law.
- B. Ensure proper notification and agendas for public meetings are given or reasons for any deviation are documented in the minutes in accordance with applicable statutes.
- C. Ensure the approval of all disbursements is adequately documented in the board minutes.
- D. Require records to be retained in a secure location at least until such time as they are audited or are no longer relevant.
- E. Establish formal written policies and procedures regarding public access to city records.

**AUDITEES RESPONSE**

A, C

*&D. We agree with these recommendations.*

*B. This was done in the past and we will ensure it is done in the future.*

*E. We have always provided access to records and will consider implementing a formal policy.*

- A. The city does not prepare and adopt annual budgets. Section 67.010, RSMo 1994, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing year.

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 city operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations by fund, and include the beginning available resources and reasonable estimates of ending available resources. The budget should also include a budget message and comparisons of actual or estimated revenues and expenditures for the two preceding fiscal years.

- B. Section 250.150, RSMo 1994, requires the city to obtain annual audits of the combined waterworks and sewer system. In July 1997, the city contracted with a CPA firm to audit the city's financial statements for the two years ended December 31, 1996. As of June 22, 1999, only the audit report for the year ended December 31, 1995 had been issued (issued on November 23, 1998). The city is not ensuring timely audits are performed. The city has not made arrangements for the audit of the two years ended December 31, 1998.

To ensure timely audits, the city should periodically solicit proposals for annual audit services and ensure the contracts require the timely issuance of the audit reports.

- C. The city prepares and posts at city hall an annual financial statement. However, the city has not published semi-annual financial statements as required by state law. Section 79.160, RSMo 1994, requires the Board of Aldermen to semi-annually publish a full and detailed statement of the receipts, expenditures, and indebtedness of the city, in a newspaper in the city. In addition, the receipts and disbursements on the financial statement posted for the year ending December 31, 1998, were not complete and accurate. For example, the financial statement did not include \$1,000 in utility receipts that were deposited into the Sewer Replacement and Extension Reserve and the Sewer Bond Reserve funds. Also, the financial statement did not present the city's indebtedness for the revenue bonds of \$96,110.

Accurate and complete semi-annual published financial statements are necessary to comply with state law and to keep the citizens informed of the financial activity and condition of the city.

- D. The city does not submit annual financial reports to the State Auditor's Office as required by state law. The last financial report submitted was for the year ended December 31, 1986. Section 105.145, RSMo 1994, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's Office.

**WE RECOMMEND** the Board of Aldermen:



- A. Prepare annual budgets in compliance with state law, and make periodic comparisons between budgeted and actual revenues and expenditures.
- B. Periodically solicit proposals for annual audit services and ensure the contracts require the timely issuance of the audit reports.
- C. Publish complete and accurate semiannual financial statements for all city funds as required by state law.
- D. Submit annual financial reports to the State Auditor's Office as required by state law.

**AUDITEES RESPONSE**

A, C  
& D. *We agree with these recommendations.*

B. *We contacted several firms initially to provide audit services, however, only one firm responded or was qualified. In the future, we will ensure audit contracts require timely issuance of audits.*

**7. Restricted Revenues and City Streets**

A. During the year ended December 31, 1998, the city deposited \$10,081 of state motor vehicle-related receipts into the General Fund and incurred only \$580 of street-related expenditures. During the first four months of 1999, the city opened a separate account for motor vehicle related revenues and deposited \$1,097 of the \$2,088 received into this account. Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related revenues apportioned by the state of Missouri be expended for street-related purposes.

To ensure compliance with the Missouri Constitution, the city should ensure all of these revenues are used only for appropriate purposes.

B. The city has not established a city-wide plan for the construction, repair, or maintenance of streets. A formal plan of street improvements noting the more critical needs of the city is needed to support the expenditures made by the city. This plan is necessary to show whether financial resources are sufficient to meet the critical needs, to provide financial support for budget preparation and expenditures for street repairs, and to answer any questions raised by the public.

**WE RECOMMEND** the Board of Alderman:

- A. Ensure all of the state motor vehicle-related receipts are accounted for in a separate fund and spent in accordance with applicable laws and regulations. The board should determine if state motor vehicle-related receipts were used for street-related expenses and transfer applicable amounts to the street fund for any unexpended balance.
- B. Prepare formal annual plans for maintenance and improvement of city streets.

**AUDITEES RESPONSE**

- A. *We will review this recommendation.*
- B. *We do this on an informal basis.*

<b>8. City Property</b>
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The city has not prepared and maintained permanent, detailed property records for general fixed assets, including the cost of land, buildings, equipment, and furniture owned by the city. In addition, the city has not prepared and maintained permanent, detailed property records for the water and sewer systems. Also, annual physical inventories are not performed.

Property records for general fixed assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage.

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

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

**AUDITEES RESPONSE**

*We agree with this recommendation.*

This report is intended for the information of the city’s management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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