



CITY OF LOUISIANA, MISSOURI

YEAR ENDED MAY 31, 2000

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

Report No. 2000-131
December 28, 2000
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

December 2000

www.auditor.state.mo.us

The following problems were discovered as a result of an audit conducted by our office of the City of Louisiana, Missouri.

During the period between December 1998 and January 2000, fines, court costs, and bonds received by the court totaling over \$3,800 were not deposited to the court's bank account. The monies that are missing represent cash receipts which were received and recorded but not deposited. These missing funds were not detected on a timely basis due to numerous internal control weaknesses, inadequate segregation of duties, and little or no independent review.

The Court Clerk resigned in November 2000. Information gathered during our review has been turned over to the Pike County Prosecuting Attorney's office and the Pike County Sheriff's office.

In late 1996, the city decided to construct a new water treatment plant rather than try to bring its two existing water treatment plants into compliance with new state Department of Natural Resources (DNR) regulations. Letters were sent to the owners of the two sites determined to be feasible indicating that the city was interested in buying one of the sites.

The city rejected an offer from one individual of approximately \$300,000 and accepted the offer from the second individual of \$120,000 plus the old water treatment plant land (valued at approximately \$32,000 by the Pike County Assessor).

The city did not obtain a professional appraisal of the land prior to purchase. According to the Pike County Assessor, the estimated market value of the building and land, prior to the city's purchase, was approximately \$44,000. The disparity between this amount and the amount paid demonstrates the benefit of an independent appraisal to help establish the market value of the land.

In January 1997, the city signed a contract for the land contingent upon the passage of the bond issue in April 1997. The bond issue passed and DNR approved the plans in October 1998. The city signed a contract with a construction company in February 1999. The contract for the purchase of the land for the new water treatment plan stated that the city would include a penalty clause in the new plant construction contract. Although the wording is unclear, it appears the clause would require the construction company to pay a \$500 per day penalty if the new plant was not operational within 24 months of the passage of the bond issue. The contract the city signed with the construction company, however, did not include this clause, but instead included a clause providing for a \$500 per day penalty if the construction was not completed within 455 calendar days of the date the

(over)

YELLOW SHEET

contract was signed. In April 1999, based on the required clause in the land purchase contract, the former owner of the land requested that the city either vacate the old water treatment plant facilities or that the city pay rent for the use of the facilities. The city refused and the owner filed a lawsuit against the city in April 2000.

In 1999, the city purchased a new city hall building for \$100,000. During the year ended May 2000, approximately \$34,000 was spent in renovations, including more than \$7,000 in labor costs and \$26,000 in materials. These expenditures were not planned for in the city budget. The renovations were authorized by the Mayor but were not formally approved by the city council prior to incurring the charges as required by city ordinance. In addition, there is no documentation that bids were solicited for this work and no contract was signed with the individuals performing the labor.

In June 2000, the city started collecting late fees of two-percent of the delinquent balance each month on its water bills. The city has an informal policy that allows city employees to be exempt from paying these late fees. In addition, it is currently the city's informal policy to allow city employees who normally operate city equipment to borrow the equipment during non-working hours for personal use.

Prior to April 1998, the city had a credit card to be used for miscellaneous city purchases. According to the current Mayor and the City Superintendent, the city previously had an informal policy allowing personal use of the credit card by city employees. Employees who used the card for personal use were supposed to either reimburse the city for the personal charges or pay the credit card company directly; however, the city did not track these personal charges to ensure reimbursement was received from the employees. Payments were processed without supporting documentation, approval, and documentation of purpose. In April 1998, the credit card was cancelled by the newly elected Mayor. Personal expenditures totaling \$1,074 were charged to the card from June 1996 through April 1998; the City Clerk could not provide documentation indicating these were city charges. Only \$204 of these personal charges have been shown to be reimbursed to the city. The City Clerk provided us with documentation showing reimbursement had been made in 1997 for an additional \$267; however, this documentation was not legitimate and appeared to be falsified. The city indicates she paid \$267 to the city and resigned in October 2000.

The city does not have a written depository agreement with an investment firm or the banks requiring collateral securities to be provided to cover deposits in excess of Federal Deposit Insurance Corporation (FDIC) coverage. Certificates of Deposit are covered by FDIC Insurance up to \$100,000; however, one CD exceeded the FDIC coverage by \$8,000 at June 30, 2000. The city also has money market accounts that are neither insured or guaranteed by the U.S. government.

The city does not have a formal bidding policy. The decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. During the past few years, bids were either not solicited or bid documentation was not retained in several instances, such as for a street sweeper costing \$95,444 or two backhoes costing approximately \$87,000.

The city does not maintain records to account for all property owned by the city. The city owns approximately 30 vehicles and has not adopted a formal policy regarding the use of city-owned vehicles, including policies which prohibit personal use.

CITY OF LOUISIANA, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the City Council
City of Louisiana
Louisiana, Missouri 63353

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Louisiana, Missouri. The city had engaged Wade, Stables, Schanbacher & Walker, P.C., Certified Public Accountants (CPA firm), to perform a financial audit of the city for the year ended May 31, 2000. To minimize any duplication of effort, we reviewed the report and substantiating work papers of the CPA firm. Our audit of the city included, but was not limited to, the year ended May 31, 2000. The objectives of this audit were to:

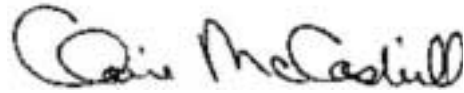
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which 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 council minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on 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 Louisiana, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

August 10, 2000

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	Alice M. Fast, CPA
In-Charge Auditor:	Susan Beeler
Audit Staff:	Megan Seehafer

HISTORY AND ORGANIZATION

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Compensation Paid For the Year Ended May 31, 2000</u>	<u>Amount of Bond</u>
Thomas Wallace, Mayor	April 2003	\$ 5,400	\$ 0
Dr. Howard Greene, Councilperson(1)	April 2001	833	0
Steven Ballinger, Councilperson (2)	April 2002	1,000	0
Frances Beck, Councilperson	April 2001	1,000	0
Catherine Sippely, Councilperson	April 2002	1,000	0
J. Mike Lesley, Councilperson	April 2001	1,000	0
James R. Bell, Jr., Councilperson	April 2002	1,000	0
William Estes, Councilperson	April 2001	1,000	0
Wayne Baker, Councilperson	April 2002	1,000	0
Wesley Meyers, City Marshall(3)	April 2003	31,154	2,000
<u>Other Principal Officials</u>			
Kelly Henderson, City Superintendent		19,136	0
Kathy Walker, City Clerk (4)		22,880	2,000
Jeana Thomas, City Treasurer(5)		10,722	20,000
Ruth Shumaker, City Collector(6)		3,349	20,000
Patricia Chandler, Court Clerk (7)		18,377	2,000
Bruce McGuire, Municipal Judge		6,000	0
Jacqueline McGreevy, City Attorney(8)		0	0

- (1) Dr. Howard Greene was appointed to the City Council when Allen Murry resigned in August 1999. Dr. Greene was re-elected in April 2000 for the one year unexpired term.
- (2) Steven Ballinger resigned from City Council in October 2000. A replacement has not been appointed.
- (3) Wesley Meyers served as City Marshall until his resignation in June 2000. William Laub was appointed City Marshall in June 2000.
- (4) Kathy Walker resigned in October 2000. Sharon Kakouris was appointed as City Clerk in November 2000.
- (5) Jeana Thomas was appointed Treasurer in November 1999, to replace Ruth Elliott.
- (6) Ruth Shumaker was appointed Collector in November 1999, to replace Jeana Thomas. Ruth resigned in June 2000. Christina McCormick was appointed Collector/Administrative Assistant in November 2000.
- (7) Patricia Chandler resigned in November 2000. Kristina Branstetter was appointed Court Clerk in November 2000.
- (8) Joseph Allwood served as City Attorney until his resignation in May 2000.

The city also employs approximately 40 full-time and 20 part-time employees.

Assessed valuation and tax rate information are as follows:

ASSESSED VALUATION	1999
Real Estate	\$ 18,357,055
Personal Property	8,387,426
Total	\$ 26,744,481

TAX RATES PER \$100 ASSESSED VALUATION

	Rate	Expiration Date
General Fund	\$ 0.73	None
Library	0.10	None

The city has the following sales tax; the rate is per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	\$ 0.015	None

MANAGEMENT ADVISORY REPORT

CITY OF LOUISIANA, MISSOURI
SUMMARY OF FINDINGS

1. New Water Treatment Plant (pages 10-11)

A professional appraisal was not obtained prior to purchasing land for a new water treatment plant. The land purchase contract included a deadline for vacating the old plant which the city did not pass along to the contractor and did not meet.

2. New City Hall (pages 11-13)

Renovation expenditures totaling \$34,364 were authorized by the Mayor without the formal approval of the city council. A formal written policy regarding leasing of office spaces has not been established and written agreements are not signed with entities using office space free-of-charge.

3. Personnel (pages 13-15)

Duties for all employees and officials of the city have not been established by ordinance. City employees are exempt from paying late fees on water bills and are allowed to use city equipment for personal use. The city does not track reimbursements of insurance premiums by city employees to ensure the city receives payments timely. Additionally, the city is not including all compensation on employees' W-2 forms and is not always issuing W-2 forms when applicable.

4. Expenditure Procedures (pages 15-17)

The city does not have formal written bidding policies and procedures. Bids were not solicited or bid documentation was not retained for purchases totaling over \$200,000. Forms 1099-MISC are not filed as required. City funds were used for an employee Christmas party, employee Christmas gifts, and flowers for funerals of former employees and relatives of current employees. Competitive bids were not obtained for purchases made from a company partially owned by a councilman. Additionally, an expenditure was deliberately charged to the wrong budget category.

5. Credit Card Procedures (pages 17-18)

The city credit card was used for personal charges totaling \$1,074. The city had documentation showing only \$204 in personal charges were reimbursed. The city did not have formal procedures for the use of the credit card and charges were not supported with adequate documentation.

6. Receipt Procedures (pages 18-19)

Prenumbered receipt slips are not issued for all monies received by the city and the method of payment is not recorded. Deposits are not made on a timely basis and checks are not restrictively endorsed immediately upon receipt.

7. Budgets, Financial Statements, and Minutes (pages 19-20)

The city's budgets do not reflect beginning available resources, projected ending fund balances, a budget message, and debt information. The city's semi-annual financial statements do not include the city's indebtedness. Council minutes are sometimes not signed by the Mayor and City Clerk.

8. Contracts (page 20)

The city did not enter into contracts with various individuals for sludge dumping.

9. Investments (page 21)

The city did not have adequate collateral securities pledged on an investment. Additionally, some city monies are deposited into money market mutual funds. These type of investment accounts are neither insured or guaranteed by the U.S. government and may not be proper investments of local public funds.

10. General Fixed Asset Records and Procedures (pages 21-23)

The city does not maintain records to account for all property owned by the city. Additionally, the city has not adopted a formal policy regarding the use of city-owned vehicles and mileage logs are not maintained for city vehicles.

11. Municipal Court (pages 23-26)

Cash receipts of \$3,800 were not deposited and are missing. Other court receipts were not always deposited intact on a timely basis. Receipt slips are not issued for all monies received, some copies of voided receipt slips are not maintained, and the method of payment is sometimes not recorded correctly. Duties of receiving, recording, and transmitting monies collected by the Municipal Court are not adequately segregated. Listings of open items are not prepared on a regular basis. Procedures utilized to monitor amounts due to the municipal division are not adequate. Adequate records are not maintained to account for all traffic tickets issued and their ultimate disposition. Additionally, court dockets are not always complete and accurate.

CITY OF LOUISIANA, MISSOURI
MANAGEMENT ADVISORY REPORT

1. New Water Treatment Plant

In late 1996, the city decided to construct a new water treatment plant rather than try to bring its two existing water treatment plants into compliance with new state Department of Natural Resources (DNR) regulations. The city contracted with an engineering firm to perform preliminary engineering studies to determine feasible sites for construction. Letters were then sent to the owners of the two sites determined to be feasible indicating that the city was interested in buying one of the sites. The city rejected an offer from one individual of approximately \$300,000 and accepted the offer from the second individual of \$120,000 plus the old water treatment plant land (valued at approximately \$32,000, by the Pike County Assessor). The city signed a contract for the land in January 1997 contingent upon passage of the bond issue in April 1997. In April 1997, the bond issue passed, and in May 1997, the city issued \$3,000,000 in general obligation bonds. The city then contracted with an engineering firm to design the proposed water treatment plant. Due to the death of the lead engineer and various concerns regarding the plans and other problems, the plans were not approved by the DNR until October 1998. The city signed a contract with a construction company in February 1999. We noted the following concerns regarding this project:

- A. The city did not obtain a professional appraisal of the land prior to purchase. According to the Pike County Assessor, the estimated market value of the building and land prior to the city's purchase was approximately \$44,000. The disparity between this amount and the amount paid demonstrates the benefit of an independent appraisal to help establish the market value for the land.

- B. The contract for the purchase of the land for the new water treatment plant stated that the city would include a penalty clause in the new plant construction contract. Although the wording is unclear, it appears the clause would require the construction company to pay a \$500 per day penalty if the new plant was not operational within 24 months of the passage of the bond issue. The penalty was to be divided equally between the city and the landowner. The City Council indicated the City Attorney at the time reviewed and approved the contract for the purchase of the land for the new water treatment plant. The contract the city signed with the construction company, however, did not include this clause but instead included a clause providing for a \$500 per day penalty if construction was not completed within 455 calendar days of the date the contract was signed (May 3, 2000). The city indicated it believed this clause fulfilled the requirement of the land purchase contract, even though the penalty clause provided for a different time frame than the land purchase contract specified.

In April 1999, based on the required clause in the land purchase contract, the former owner of the land requested that the city either vacate the old water

treatment plant facilities or that the city pay rent for the use of the facilities. The city refused. In April 2000, the owner filed a lawsuit against the city because the city had not required the construction company to pay a \$500 per day penalty for exceeding the contract period. Additionally, the lawsuit is attempting to get the city to vacate the old water treatment plant facilities.

WE RECOMMEND the City Council:

- A. Obtain professional appraisals on buildings or land it considers purchasing.
- B. Ensure all contract terms and clauses are clear and unambiguous. The city should comply with terms of previous contracts when entering into new contracts that are based on prior contractual agreements.

AUDITEE'S RESPONSE

The City Council and Mayor indicated:

- A. *We will obtain appraisals next time we purchase land or buildings.*
- B. *The city's attorney at that time reviewed the contract for the purchase of the land and approved it. The City Attorney at the time also indicated that the deadline in the construction contract was adequate. The city followed its attorneys' opinions in this matter. In the future, we will ensure all contract terms are clear and any deadlines are within our control.*

2.

New City Hall

In 1999, the city purchased a new city hall building for \$100,000. We noted the following concerns regarding the city hall:

- A. During the year ended May 31, 2000, \$34,364 was spent in renovations to the new city hall building. This included \$7,671 in labor costs and \$26,693 in materials. These expenditures were authorized by the Mayor and were not planned for in the city budget. Although it appears that some discussion of the renovations occurred during the Building and Grounds Committee meetings, the renovations were not formally approved by the City Council prior to incurring the charges. The city's purchasing ordinance states that any officer of the city or committee of the city council must have prior approval of the council in the form of a council ordinance or resolution to expend more than \$300, except in the case of an emergency.

In addition, there is no documentation that bids were solicited for this work and no contract was signed with the individuals performing the labor.

The Mayor indicated the city currently allows department heads to expend monies without limit, so long as the council has included the purchase in the budget. However, since the project was not budgeted, it would appear this "informal" policy was not complied with either.

- B. Office space in the new city hall building is leased to individuals at a rate of \$200 per month for regular offices, \$250 per month for corner offices, and \$350 per month for two offices. The city indicated that the rent it charges will cover the city's costs to maintain the offices. Additionally, the city indicated that these prices are what the market would bear. However, the city did not perform a formal analysis to determine the costs of maintaining the building to ensure that these costs will be covered by the rent payments and no documentation was maintained indicating what prices the market would bear.

Additionally, the city has not adopted a formal written policy regarding leasing these office spaces. A formal written policy will help ensure that all lessees receive equitable treatment.

- C. The city does not have written lease agreements with the entities that are using offices in the city hall building free-of-charge (the Pike County Developmental Authority and a probation office). Formal written agreements are necessary to document each party's duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires political subdivisions' contracts be in writing.

WE RECOMMEND the City Council:

- A. Ensure all expenditures have prior approval of the council as required by ordinance. In addition, all large expenditures such as this should be bid and have written contracts.
- B. Establish a minimum lease amount to ensure the city recovers the cost of maintaining the building. Additionally, the City Council should adopt a formal written policy regarding leasing of office space in the city hall building.
- C. Obtain written agreements with all entities using office space in the city hall building to ensure the rights and responsibilities of all parties are specifically outlined.

AUDITEE'S RESPONSE

The City Council and Mayor indicated:

- A. *Expenditures such as these are always approved by the council prior to payment. However, they are not always approved prior to incurring the charges. The Building and Grounds Committee was aware of these expenditures prior to incurring the charges. We*

will ensure all future expenditures are properly approved. We will also ensure large expenditures are properly bid and written contracts are entered into.

- B. The city called around to check other rental prices in town. However, no documentation was kept of this. The city plans to do a formal analysis to ensure that the rental income is covering the related expenses and document other rental prices in town. This will be done by April 1, 2001.*
- C. We will obtain written agreements for all entities using office space in city hall by January 2001.*

3. Personnel

- A. Throughout calendar years 1997 and 1998, the city switched back and forth between having a City Treasurer and no City Collector and having a City Collector and no City Treasurer. The city's ordinances at that time regarding the Collector and Treasurer positions did not clearly define the duties of either position and as a result, during the time from September 1997 through April 1998, the city's general ledger was not maintained. In April 1998, the city paid the City Collector an additional \$3,500 to get the general ledger up-to-date. Documentation of duties and job descriptions would clarify the duties and responsibilities of each employee and official and help prevent misunderstandings.
- B. In June 2000, the city started collecting late fees of two-percent of the delinquent balance each month on its water bills. The city has an informal policy that allows city employees to be exempt from paying these late fees. One employee had a delinquent balance of approximately \$200 as of June 28, 2000. This policy does not appear equitable for all citizens of the city.
- C. It is currently the city's informal policy to allow city employees who normally operate city equipment to borrow the city equipment during non-working hours for personal use. This has raised concerns among citizens regarding the propriety of such usage and does not appear to be a prudent use of city resources.
- D. The city allows former city employees, family members of former city employees, and ex-spouses of current city employees to maintain their insurance through the city for a period of 18 months after termination or divorce. Additionally, the city allows former employees who have retired from the city to stay on the insurance plan indefinitely. The individuals are supposed to reimburse the city monthly for this cost; however, the city does not monitor payments from these individuals to ensure they are paying monthly and that they are paying the correct amount. Because the city was not monitoring this, the city failed to realize one individual was paying an incorrect amount, and, as a result, owes \$249 to the

city. The city should be monitoring the insurance reimbursements to ensure all reimbursements are made on a timely basis and for the correct amount.

- E.1. As set by ordinance, the city pays the personal utility costs of the city's fire truck driver/janitor. Total costs were approximately \$1,400 for the year ended December 31, 1999. These costs have not been included on the employee's W-2 form in the past. Internal Revenue Service (IRS) regulations require such benefits be considered gross income and require payroll taxes be withheld from this gross income. The failure to submit the required forms could result in penalties to the city.
2. For the year ended December 31, 1999, the city did not report, withhold payroll taxes, and pay the employer's share of social security for the library janitor's wages of \$1,664. The IRS regulations require employers to report wages on W-2 forms and withhold federal income taxes. Similarly, Chapter 143, RSMo 1994, includes requirements for reporting wages and withholding state income taxes. State and federal laws require employers to withhold payroll taxes and pay the employer's share of social security on the compensation paid to employees. Section 105.300, RSMo 1994, defines an employee of a political subdivision as an employee for social security tax purposes.

WE RECOMMEND the City Council:

- A. Establish by ordinance the duties of all city officials and employees.
- B. Discontinue the informal policy of allowing city employees exemption from paying late fees on city water bills.
- C. Discontinue the informal policy of allowing city employees to use city equipment for personal use.
- D. Monitor insurance payments from retirees and individuals on the insurance plan to ensure they are paying the correct amount and that the payments are timely.
- E. Ensure all compensation provided for or paid to city employees is properly reported and appropriate payroll taxes are withheld and paid. In addition, the city should consider filing amended W-2 forms for the unreported employee compensation.

AUDITEE'S RESPONSE

The City Council and Mayor indicated:

*A,B,
&D. These recommendations have been implemented.*

- C. *We have developed a formal policy concerning the use of city equipment for personal use. It is awaiting council approval.*
- E. *This recommendation will be implemented. We will ensure all compensation is properly reported for 2000 and will consider filing amended W-2 forms for past years.*

4. Expenditure Procedures

- 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. During the past few years, bids were either not solicited or bid documentation was not retained in several instances.

Street sweeper	\$95,444
Two backhoes	87,180
Truck	22,544
City ordinance book binding	10,560
Laser printer	2,637
Mosquito spray	2,117
Cemetery mower	2,000
Electrical supplies	1,989

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. The city did not file Forms 1099 with the Internal Revenue Service. The Internal Revenue Code requires payments of \$600 or more annually for services by nonemployees (other than corporations) be reported to the federal government on Form 1099. During the year ended December 31, 1999, the city paid one individual \$4,560 in labor costs to renovate the new city hall building. Also, the city paid a software consultant \$150 each quarter (\$600 per year) in software rental charges. Additionally, in January 2000, the water department paid an individual \$3,036 for performing various services including checking various gear boxes and water stations during calendar year 1999.
- C. The city spent \$787 during the year ended May 31, 2000, for an employee Christmas party and employee Christmas turkeys. In addition, the city purchased flowers for the funerals of former employees and relatives of current employees.

These disbursements do not appear to be necessary or prudent uses of public funds. Expenditures such as these could be funded through an employee contribution fund or association. The city's residents have placed a fiduciary trust in their public officials to spend tax revenues and fees in a necessary and prudent manner.

- D. During the year ended May 31, 2000, the city made several purchases of paper products totaling approximately \$3,100 from a local paper supply company partially owned by a councilman. Competitive bids were not obtained for these expenditures.

Section 105.458.2, RSMo, Cumulative Supp. 1999, states "No sole proprietorship, partnership, joint venture, or corporation...in which any member of any political subdivision...is the partner...or owner...shall:... (2) Sell, rent or lease any property to the political subdivision or any agency of the political subdivision where the consideration is in excess of five hundred dollars per transaction or one thousand five hundred dollars per annum unless the transaction is made pursuant to an award on a contract let or a sale made after public notice and in the case of property other than real property, competitive bidding, provided that the bid or offer accepted is the lowest received." The city should obtain bids and retain bid documentation for all purchases, exceeding \$500 per transaction and \$1,500 annually, from businesses owned by city officials in order to ensure and adequately document compliance with this statute.

- E. The city does not always code expenditures to the appropriate line item. In April 2000, the council approved a cemetery mower expenditure of \$2,000 to be paid out of the cemetery salaries line item. The board approved coding this expenditure in this manner because the equipment line item had been depleted. The city should ensure all expenditures are correctly classified.

WE RECOMMEND the City Council:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected.
- B. Ensure that IRS Forms 1099 are filed as required for prior years as well as in the future.
- C. Limit disbursements to only those necessary to properly operate the city.
- D. Comply with state laws relating to purchases from businesses owned by city officials.
- E. Ensure expenditures are charged to the correct line item.

AUDITEE'S RESPONSE

The City Council and Mayor indicated:

- A. *We have established a formal bid policy and will ensure all items are properly bid. This policy awaits council approval.*
- B. *We will file amended 1099 forms for prior years and correct 1099 forms for 2000.*
- C. *We believe the Christmas party and turkey expenses are a form of fringe benefit compensation to the employees. A policy has been written and awaits council approval. Funeral flowers will be paid by officials and employee donations in the future.*
- D. *We will bid all future paper product purchases.*
- E. *We have already implemented this recommendation.*

5. Credit Card Procedures

- A. Prior to April 1998, the city had a credit card to be used for miscellaneous city purchases. According to the current Mayor and the City Superintendent, the city previously had an informal policy allowing personal use of this credit card by city employees. Employees who used the card for personal use were supposed to either reimburse the city for the personal charges or pay the credit card company directly; however, the city did not track these personal charges to ensure reimbursement was received from the employees. Personal expenditures totaling \$1,074 were charged to the card from June 1996 through April 1998, by the City Clerk and various other city employees. The City Clerk could not provide documentation indicating these were city charges. Only \$204 of these personal charges have been shown to be reimbursed to the city. The City Clerk provided us with documentation showing reimbursement had been made in 1997 for an additional \$267; however, this documentation was not legitimate and appeared to be falsified.
- B. There were no formal procedures for use of this credit card including authorization, approval, and review of expenditures. As a result, payments were processed without supporting documentation, approval, and documentation of purpose. During the two years ended May 31, 1998, charges of \$1,418 (73% of total credit card expenditures) were not supported by adequate documentation. Without adequate documentation, the city cannot ensure purchases are for city purposes.

The credit card was cancelled by the newly elected Mayor in April 1998.

WE RECOMMEND that if city credit cards are used in the future, the City Council:

- A. Not allow personal use of city credit cards. In addition, the city should request payment of the \$870 in unreimbursed personal charges.
- B. Establish formal policies and procedures for credit card accounts.

AUDITEE'S RESPONSE

The City Council and Mayor indicated:

- A. *We received reimbursement for \$267 from the City Clerk on October 25, 2000. We will attempt to obtain reimbursement for the remaining \$603 in the next 12 months. We have referred this matter to the County Prosecuting Attorney.*
- B. *We do not have a credit card at this time. If a credit card is used in the future, we will not allow personal use and formal policies and procedures will be established.*

6. Receipt Procedures

- A. The City Collector's office collects various types of receipts, including property taxes, car licenses, pet licenses, and monthly turnovers from the license office manager. Property tax bills are marked paid and serve as the property tax receipt slips. Manual receipt slips are issued for all other monies received; however, these manual receipt slips are not prenumbered. To adequately account for all receipts, prenumbered receipt slips should be issued for all monies received and the numerical sequence should be accounted for properly.
- B. The method of payment received (i.e. cash, check, money order) is not recorded on the receipt records. To ensure all receipts have been recorded properly and deposited intact, the method of payment received should be recorded on each receipt slip and the composition of receipt slips should be reconciled to the composition of bank deposits.
- C. Deposits are not made on a timely basis. During the year ended May 31, 2000, deposits were generally made every other day with deposits averaging over \$1,000. To adequately safeguard cash receipts and reduce the risk of loss or misuse of funds, deposits should be made on a daily basis or when accumulated receipts exceed \$100.
- D. Checks and money orders received are not restrictively endorsed immediately upon receipt. To reduce the risk of loss or misuse of funds, checks and money orders should always be restrictively endorsed immediately upon receipt.

WE RECOMMEND the City Council:

- A. Require prenumbered receipt slips to be issued for all monies received, and ensure the numerical sequence of receipt slips is accounted for properly.
- B. Ensure the method of payment is recorded on each receipt slip and the composition of receipt slips is reconciled to the composition of bank deposits.
- C. Ensure deposits are made on a daily basis or when accumulated receipts exceed \$100.
- D. Ensure checks and money orders are restrictively endorsed immediately upon receipt.

AUDITEE'S RESPONSE

The City Council and Mayor indicated these recommendations have been implemented.

7. Budgets, Financial Statements, and Minutes
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- A. The budgets for the city's years ended May 31, 2001 and 2000, did not include some information required by state law. The budget did not reflect beginning available resources or projected ending fund balances; a budget message describing the important features of the budget and major changes from the preceding years; or interest, amortization, or redemption charges on debt.

Section 67.010, RSMo 1994, requires each political subdivision of the state to prepare annual budgets with specific information. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A complete budget should include appropriate revenue and expenditure estimates by classification, and include the beginning available resources and reasonable estimates of the ending available resources for all funds. The budget should also include a budget message and information on interest, amortization, or redemption charges on debt.

- B. The city's semi-annual published financial statements do not include the city's indebtedness. The published financial statements for May 31, 2000 and December 31, 1999, did not include bonds payable or capital lease obligations of the city at that date.

Section 77.110, RSMo 1994, requires the city council to publish, semi-annually, a full and detailed account of the receipts, expenditures, and indebtedness of the city. The publication of such financial statements are intended to provide information to citizens regarding the financial activity and condition of the city.

- C. The council minutes are prepared by the City Clerk, but the minutes are sometimes not signed. The minutes should be signed by the City Clerk as preparer and by the Mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the council meetings.

WE RECOMMEND the City Council:

- A. Ensure annual budgets include all relevant information, as required by state law.
- B. Ensure the published financial statements provide the citizens an adequately detailed account of the financial activity and indebtedness of the city.
- C. Ensure board minutes are signed by the City Clerk and the Mayor to attest to their completeness and accuracy.

AUDITEE'S RESPONSE

The City Council and Mayor indicated:

- A. *This recommendation will be implemented when the budget is prepared for next year.*
- B. *This recommendation will be implemented when the financial statements are published in December.*
- C. *This recommendation has been implemented.*

8. Contracts

During the year ended May 31, 2000, the city contracted with a landowner and paid him \$12,500 to allow the city to dump sludge from the city's sewer system onto his land. During the last three months of the fiscal year, the city began dumping sludge at five additional sites owned by five other individuals at no cost. The city did not enter into contracts with these five landowners.

Formal written agreements are necessary to document each party's duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires political subdivisions' contracts be in writing.

WE RECOMMEND the City Council enter into written agreements for all services.

AUDITEE'S RESPONSE

The City Council and Mayor indicated that this recommendation will be implemented by January 2001.

9.**Investments**

- A. Through an investment firm, the city invests funds in Certificates of Deposit (CD's) at various banks. The city does not have a written depository agreement with the investment firm or the banks requiring collateral securities be provided to cover deposits in excess of Federal Deposit Insurance Corporation (FDIC) coverage. CD's are covered by FDIC Insurance up to \$100,000; however, we noted one CD that exceeded the FDIC coverage by \$8,000 at June 30, 2000.

Section 110.020, RSMo 1994, provides the value of the securities pledged shall at all times be not less than 100 percent of the actual amount on deposit less the amount insured by the FDIC. Inadequate collateral securities leave funds unsecured and subject to loss in the event of a bank failure.

- B. The city also has money market accounts at these various banks through the investment firm. However, the monies maintained in these accounts are neither insured nor guaranteed by the U.S. government. Investments of local public funds are limited to insured or collateralized banking deposits or direct investments in government securities that can be held to maturity.

WE RECOMMEND the City Council:

- A. Enter into written agreements requiring collateral securities be pledged for all funds on deposit in excess of FDIC coverage.
- B. Review this situation with its attorney and determine whether the money market accounts are a proper and legal investment for the city.

AUDITEE'S RESPONSE

The City Council and Mayor indicated:

- A. *We will no longer invest amounts totaling over the FDIC insured rate, unless we have entered into a written agreement requiring collateral securities be pledged for all funds on deposit in excess of FDIC coverage.*
- B. *We will have our attorney review this situation and make a determination by January 2001.*

10.**General Fixed Asset Records and Procedures**

- A. The city does not maintain records to account for all property owned by the city. Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a

detailed description of the assets including the name, make and model numbers, and asset identification number, the physical location of the assets, and the date and method of disposition of the assets. In addition, all property items should be identified with a tag or other similar device, and the city should conduct annual inventories.

Adequate general fixed asset records are necessary to secure better internal control and safeguard city assets which are susceptible to loss, theft, or misuse, and provide a basis for determining proper insurance coverage required on city property.

A similar condition was reported in the city's independent CPA audit report.

- B. The city owns approximately 30 vehicles and has not adopted a formal policy regarding the use of city-owned vehicles, including policies which prohibit personal use. A formal policy would help ensure the vehicles are used only in a manner approved by the board.

In addition, mileage logs which document vehicle use are not maintained. Logs are necessary to document appropriate use of the vehicles and to support gasoline charges. The logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. These logs should be reviewed by a supervisor to ensure vehicles are used only for city business, are being properly utilized, and help identify vehicles which should be replaced. Information on the logs should be reconciled to gasoline purchases and other maintenance charges.

WE RECOMMEND the City Council:

- A. Ensure property records are maintained which include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. Additionally, the city should properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory.
- B. Establish a formal policy governing the use of city vehicles, and require complete and accurate mileage logs be maintained for each vehicle. The logs should be reviewed by a supervisor periodically for completeness and reasonableness.

AUDITEE'S RESPONSE

The City Council and Mayor indicated:

- A. *We are currently working on this area and will have complete and up to date property records by February 2001. We plan to tag any unmarked property and perform an inventory in March 2001.*

B. *This policy has been composed and awaits council approval.*

11. Municipal Court

A. Payments for fines, court costs, and bonds are received directly by the Court Clerk or police dispatchers. Prenumbered receipt slips are issued for all monies received. Prior to January 2000, the Court Clerk deposited fines, court costs, and bond monies directly into the court's bank account and performed the monthly bank reconciliations.

In January 2000, the Court Clerk began turning the fines, court costs, and bond monies over to the City Treasurer for deposit into the court's bank account and the City Treasurer began performing the monthly bank reconciliations.

During the period between December 1998 and January 2000, fines, court costs, and bonds received by the court totaling over \$3,800, were not deposited to the court's bank account. The monies that are missing represent cash receipts which were received and recorded but not deposited.

These missing funds were not detected on a timely basis due to numerous internal control weaknesses, inadequate segregation of duties, and little or no independent review as discussed below.

The Court Clerk resigned in November 2000. Information gathered during our review has been turned over to the Pike County Prosecuting Attorney's office and the Pike County Sheriff's office.

B. Prior to May 2000, court receipts were not always transmitted to the City Treasurer intact on a timely basis. Transmittals were made approximately every other week and amounts often exceeded \$1,500. The majority of monies collected by the municipal division is cash. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, monies should be transmitted daily or when accumulated receipts exceed \$100.

C. The municipal division accepts cash, checks, and money orders for the payment of fines, court costs, and bonds. The Court Clerk issues prenumbered receipt slips; however, receipt slips are not issued for some monies received and some copies of voided receipt slips are not retained. In addition, the method of payment is not consistently and accurately noted on the receipt slips. To provide assurance all monies received have been properly deposited, a receipt slip noting method of payment should be issued for all monies received, and the composition of monies received should be reconciled to the composition of bank deposits.

D. The duties of receiving, recording, and transmitting monies collected by the municipal court are not adequately segregated. Currently, the Court Clerk

performs all of these duties. Although the City Treasurer does perform a bank reconciliation of the court account, she does not reconcile the bank amounts to the court clerk's records.

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 the duties of receiving monies from that of recording receipts and preparing and making transmittals. If proper segregation cannot be achieved, at a minimum, the City Treasurer should be reconciling the court clerk's records of receipts and disbursements to the deposits and bank reconciliations.

- E. Listings of open items (liabilities) were not prepared on a regular basis throughout the audit period. At our request, a May 31, 2000, listing was prepared and this listing reconciled to the cash balance.

Monthly listings of open items should be prepared and reconciled to the cash balance to ensure proper accountability over open cases and to ensure monies held in trust by the municipal division are sufficient to meet liabilities. A review of old bond monies still remaining in the account should be made and these monies disposed of as provided for in various applicable statutory provisions.

- F. The municipal division allows defendants to sign a payment plan agreement and pay fines and costs over a period of time. At May 31, 2000, municipal division records indicated an accounts receivable balance of approximately \$65,808. Accounts receivable records and procedures are not adequate to account for and collect amounts due to the court. Several instances were noted where periodic payments as required by the payment plan agreements were missed and no follow up action was taken, the accounts receivable records were not updated for payments, partial payments were being made but no payment plan agreement was on file, individuals with balances due were not included on the accounts receivable listing, arrest warrants were not issued for individuals with delinquent balances, and individual case file receivable information did not agree to the summary listing.

To facilitate monitoring of amounts due to the division, and to provide information to the Municipal Judge, an accurate and complete accounts receivable listing is necessary. In addition, proper follow-up action should include requiring the defendant to appear in court to justify reasons for non-payment, the issuance of arrest warrants for those defendants not providing such justification, and writing off those accounts which are deemed to be uncollectible, after review and approval by the Municipal Judge. The accounts receivable listings should be periodically reconciled to the individual accounts receivable records to check the accuracy of each record.

- G. The Court Clerk maintains records of traffic tickets assigned to police officers; however, neither the police department nor the municipal division maintains adequate records to account for traffic tickets issued and their ultimate disposition. Several tickets selected for review could not be located.

Without a proper accounting of the numerical sequence and disposition of traffic tickets, the police department and the municipal division cannot be assured that all traffic tickets issued were properly submitted to the municipal division for processing. A log listing each ticket in numerical order, the date issued, and the violator's name would help ensure that all tickets issued have been submitted to the municipal division for processing, properly voided, or not prosecuted. A record of the ultimate disposition of each traffic ticket should also be maintained to ensure all traffic tickets have been accounted for properly.

- H. The court docket which lists all cases for the month is not always complete and accurate. Twelve of sixty tickets reviewed had information that did not agree to the court docket and one ticket was not on the docket. Section 479.070, RSMo 1994, requires the proceeding for every case be entered on the docket; furthermore, the amount paid and the disposition of each case should be noted on the docket.

WE RECOMMEND the Municipal Court:

- A. Along with the city, work with law enforcement officials regarding any criminal prosecution and to obtain restitution of the missing funds.
- B. Deposit receipts intact daily or when accumulated receipts exceed \$100.
- C. Issue receipt slips for all monies received and retain all voided receipt slips. Additionally, the method of payment should be indicated on each receipt slip issued, and the composition of monies received should be reconciled to the composition of monies deposited by an independent person.
- D. Adequately segregate duties between available employees and/or require the City Treasurer to review and reconcile the municipal division records.
- E. Prepare monthly listings of open items and reconcile the listing to monies held in trust by the municipal division. Any bonds remaining on hand over a period of time should be followed-up on and either refunded, forfeited, or turned over to the state's Unclaimed Property Section.
- F. Establish adequate accounts receivable reporting and follow up procedures including an accurate accounts receivable listing. In addition, the listing of accounts receivable should be reconciled to the individual accounts receivable records on a periodic basis.

G. Work with the police department to establish a log of tickets issued to ensure records are maintained to account for the numerical sequence and ultimate disposition of all tickets issued.

H. Ensure every case is entered on the court docket accurately.

Except for parts A, C and H, similar conditions were also noted in our prior audit report.

AUDITEE'S RESPONSE

The Municipal Judge, Mayor, and City Council indicated:

A. *We will work with law enforcement officials regarding any criminal prosecution and obtain restitution.*

B&C. *These recommendations have been implemented.*

D. *We will have the City Treasurer review and reconcile municipal court records starting immediately.*

E,G,

&H. *These recommendations will be implemented immediately.*

F. *This recommendation has been partially implemented. The court has sent some notices to individuals requesting payment of old fines and will attempt to do more in the future.*

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