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Missouri State Auditor

City of Levasy



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YELLOW SHEET

Findings in the audit of the City of Levasy

Water System	Non-monetary transactions are not reviewed by the Board. The City Clerk posts non-monetary transactions to water accounts, as well as receives water payments. There is no oversight of non-monetary transactions or other changes to the accounting system to ensure these transactions are properly authorized. The city has not conducted a formal rate study in over 6 years and has not prepared a formal capital improvement plan. Additionally, the city does not have sufficient procedures to ensure monies received from bulk water sales are reasonable.
Budgets and Financial Reporting	While budgets are prepared and adopted, they do not contain all elements required by state law. The budgets did not contain a budget message and are prepared for each bank account, rather than by fund. The beginning and estimated ending cash balances were not included in the budgets for each account. In addition, the city has not submitted annual financial reports to the State Auditor's office for the years ended December 31, 2005 through December 31, 2007, and has not published semi-annual financial statements, as required by state law.
Ordinances	The city does not maintain a summary list of ordinances passed, rescinded, or superseded by a subsequent ordinance. As a result, it is not clear which city ordinances are currently in effect. Numerous city ordinances are not signed and some appear old and outdated. In addition, some newly adopted ordinances have not been added to the ordinance book and previous versions are not formally rescinded.
Accounting Controls and Procedures	Proper segregation of duties is not possible because the only office worker is the City Clerk, and there is minimal supervisory review of her work. The city does not issue receipt slips for all monies received or retain other source documentation for water receipts, such as payment stubs.
Disbursements	Supporting documentation related to some credit card disbursements was insufficiently detailed. Transfers made to the payroll account were not supported by adequate documentation and the amounts transferred exceed the amount necessary to make payroll.
Sunshine Law	The city did not always demonstrate compliance with the Sunshine Law. Information provided in the October 26, 2009, closed session minutes was not sufficient to demonstrate that issues discussed were allowable under the Sunshine Law. In addition, the city did not retain copies of meeting notices held in 2009.
Elected Officials	The city has not established adequate procedures to ensure all candidates for the position of alderman are qualified to run for office.

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City of Levasy

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory Report - State Auditor's Findings	1. Water System4
	2. Budgets and Financial Reporting5
	3. Ordinances.....7
	4. Accounting Controls and Procedures8
	5. Disbursements9
	6. Sunshine Law10
	7. Elected Officials11

Organization and Statistical Information	13
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SUSAN MONTEE, JD, CPA
Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Levasy. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2009. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Evaluate the city's internal controls over significant management and financial functions.
3. Evaluate the city's compliance with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

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

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

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Levasy.



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State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CIA, CGFM
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City of Levasy

Management Advisory Report

State Auditor's Findings

1. Water System

Non-monetary transactions are not reviewed, a water rate study has not been conducted for several years, a capital improvement plan has not been developed, and bulk water receipts are not reconciled to water usage for reasonableness.

1.1 Non-monetary transactions

Non-monetary transactions are not reviewed by the Board. The City Clerk posts non-monetary transactions to water accounts, as well as receives water payments. Non-monetary transactions are basically any transactions where monies are not received; however, the account balance has been changed in the system. There is no oversight of non-monetary transactions or other changes to the accounting system to ensure these transactions are properly authorized.

To safeguard against the possible loss or misuse of funds, internal controls should provide reasonable assurance all transactions are accounted for properly and assets are adequately safeguarded. Since proper segregation of duties cannot be achieved due to having one office worker, there should be a documented Board review of non-monetary transactions.

1.2 Rate study

The city has not conducted a formal rate study in over 6 years and has not prepared a formal capital improvement plan. The water system is old, and the city has not obtained an engineer's study to identify capital improvements which may be necessary to sustain the water system. During 2009, the city's water supplier increased water rates charged to the city, but it was determined an increase in water rates may create a hardship on citizens; therefore, water rates were not increased to users of the water system. As of December 31, 2009, the Water Department Fund had approximately \$160,000. A formal rate study should be performed once capital improvements have been identified and the costs associated with those improvements are known.

Without a current cost study to support the rates charged for water services, it is unclear whether the rates assessed for these services are set at an appropriate level. The city should perform and document a detailed review of its water costs, including depreciation, and establish rates to cover the total cost of operations without generating excessive profits. Formal capital improvement plans serve as a useful management tool and provide greater input into the overall budgeting process. Plans provide a means to continually and more effectively monitor and evaluate the progress made in the repair, maintenance, and improvement of the city's system throughout the year. Any rate studies performed in the future should incorporate capital improvement plans and the available cash balance.

1.3 Bulk water receipts

The city does not have sufficient procedures to ensure monies received from bulk water sales are reasonable. During 2009, the city retrieved approximately \$2,150 from the bulk water change box. Bulk water is sold in



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

30 second increments (approximately 40 gallons) for 25 cents and a meter tracks the total gallons sold monthly, but the city does not have procedures to determine if the receipts are reasonable compared to water dispensed.

To improve accountability over bulk water sales, the city should reconcile receipts to water dispensed to determine if bulk receipts are reasonable. Without proper reconciliation procedures, there is less assurance bulk water receipts are accounted for properly and transmitted to the bank.

Recommendations

The Board of Aldermen:

- 1.1 Ensure a documented review of all non-monetary transactions posted to the system is performed by someone independent of the City Clerk.
- 1.2 Review water rates periodically to ensure revenues are sufficient to cover all costs of providing these services, but not set at a level that results in excessive fund balances. In addition, the Board should prepare a formal capital improvement plan for the water system.
- 1.3 Develop reconciliation procedures to ensure bulk water receipts are reasonable.

Auditee's Response

The Board provided the following responses:

- 1.1 *We will determine procedures for reviewing non-monetary adjustments prior to May 1, 2010.*
- 1.2 *We will develop a long-term capital improvement plan in conjunction with rate studies by January 2011.*
- 1.3 *We agree and this recommendation has already been implemented.*

2. Budgets and Financial Reporting

Budgets are not in compliance with state law, proper financial reports are not submitted to the State Auditor's office, and semi-annual financial statements are not published.

2.1 Budgets

While budgets are prepared and adopted, they do not contain all elements required by state law. A review of the 2010 budget for the city revealed the following concerns:

- The budget did not contain a budget message.



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

- The General, Water, and Street Funds have two or three separate bank accounts per fund. The budgets were prepared and presented by bank account rather than by fund. When presenting budgets by bank account, the overall financial condition of each fund is not portrayed in the budgets.
- The budgets contained only 9 months of 2009 actual disbursements and did not contain estimates for the remainder of 2009 disbursements.
- The beginning and estimated ending cash balances were not included in the budgets for each account.

Sections 67.010 to 67.040, RSMo, establish specific guidelines as to the format and approval of annual operating budgets. A complete and well planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each fund of city operations and provides a means to effectively monitor actual costs and receipts.

2.2 Financial reporting

The city has not submitted annual financial reports to the State Auditor's office for the years ended December 31, 2005 through December 31, 2007. The city did submit detail transaction reports for the year ended December 31, 2008, but these reports were for each bank account, rather than by fund. In addition, the reports submitted did not contain beginning and ending cash balances. Section 105.145, RSMo, requires each political subdivision to file an annual report of its financial transactions with the State Auditor's office.

2.3 Financial statements

The city has not published semi-annual financial statements as required by state law. The City Clerk indicated she was not aware of this requirement. Section 79.160, RSMo, requires the Board of Aldermen to prepare and publish semi-annually a full and detailed account of the receipts, disbursements, and indebtedness of the city.

Complete and accurate financial statements are necessary to keep the citizens informed of the financial activity and condition of the city. In addition, Section 79.165, RSMo, states the City Treasurer cannot legally disburse funds until the financial statement is published.

Recommendations

The Board of Aldermen:

- 2.1 Prepare annual budgets which contain all information required by state law.
- 2.2 Submit annual financial reports to the State Auditor's office as required by state law.



- 2.3 Ensure semi-annual financial statements are published or posted in accordance with state law.

Auditee's Response

The Board provided the following responses:

- 2.1 *We agree with this recommendation and will ensure the 2011 budgets conform with state law.*
- 2.2 *From 2005 to 2008, financial statements were not submitted to the State Auditor's office due to a computer crash and loss of financial data. The financial activity has been re-created and the city has engaged an independent CPA to audit these financial statements. In the future, financial statements will be submitted timely to the State Auditor's office.*
- 2.3 *We were unaware of this requirement and will ensure a 6 month financial statement for the period of January 1, 2010 to June 30, 2010 is prepared and published.*

3. Ordinances

The city does not maintain a summary list of ordinances passed, rescinded, or superseded by a subsequent ordinance. As a result, it is not clear which city ordinances are currently in effect. Numerous city ordinances are not signed and some appear old and outdated. In addition, some newly adopted ordinances have not been added to the ordinance book and previous versions are not formally rescinded. For example, ordinance number 69.040 related to water shut-off fees was adopted in March 2009; however, it was not added to the ordinance book and the previous ordinance was not rescinded.

Since ordinances represent legislation passed by the Board of Aldermen to govern the city and its residents, it is important the ordinances be maintained in a complete, well-organized, and up-to-date manner. An index of all ordinances passed and repealed by the city could help keep track of additions and changes made to the city ordinances.

Recommendations

The Board of Aldermen ensure a complete and up-to-date set of ordinances is maintained, along with a summary list of ordinances passed, rescinded, or superseded by a subsequent ordinance.

Auditee's Response

The Board provided the following response:

We are aware of the problem and will have the ordinances updated by January 2011.



4. Accounting Controls and Procedures

Duties are not adequately segregated and there is no supervisory oversight. In addition, the city does not issue receipt slips for all monies received.

4.1 Independent oversight and segregation of duties

Proper segregation of accounting duties is not possible because the only office worker is the City Clerk, and there is minimal supervisory review of her work. The City Clerk receipts and records transactions, prepares and makes bank deposits, processes invoices, prepares checks, and performs the bank reconciliations.

To safeguard against the possible loss or misuse of funds, internal controls should provide reasonable assurance all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by having someone independent of the City Clerk document their review of the receipt and disbursement records.

4.2 Receipt slips

The city does not issue receipt slips for all monies received. According to the city's financial registers, for the year ended December 31, 2009, water receipts totaled approximately \$34,800 and rental receipts from the civic center totaled approximately \$5,400. The city issues receipt slips for cash receipts only. The city does not issue receipt slips or retain other source documentation for water receipts, such as payment stubs. The city has contracts for rentals of the civic center which indicate the amount paid; however, the contracts are not prenumbered. As a result, there is less assurance all transactions are posted to the accounting system and deposited.

To adequately account for all receipts, official prenumbered receipt slips or contracts should be issued in numerical order for all monies received or some other record of original receipt should be maintained and compared to amounts posted to the accounting system and deposited.

Recommendations

The Board of Aldermen:

- 4.1 Ensure there is a documented review of receipt and disbursement records prepared by the City Clerk. Any unusual items or discrepancies should be investigated.
- 4.2 Issue prenumbered receipts slips for monies received or ensure an original record of receipt is maintained, and compare those records to amounts posted to the accounting system and deposited.



Auditee's Response

The Board provided the following responses:

4.1 *We agree with this recommendation and it has already been implemented.*

4.2 *The Board will consider this recommendation.*

5. Disbursements

Some credit card disbursements were not supported by adequate documentation, and there is no support for the allocation of payroll transfers.

5.1 Supporting documentation

Supporting documentation related to some credit card disbursements was insufficiently detailed.

- During 2009, the city disbursed \$436 for fuel used in the mower. The disbursements were supported only by a summary statement of fuel purchased. The city did not obtain individual receipts to reconcile the fuel purchased to the statement.
- During 2009, the city spent approximately \$1,700 on credit card purchases. We reviewed three months of credit disbursements and noted individual receipts or details of the purchases were not available. Supporting documentation was not available for approximately \$248 (or 57 percent) of the total charges reviewed.

Adequate documentation, consisting of detailed invoices, should be maintained to support all payments made. Without obtaining and properly reviewing adequate documentation from vendors, the city cannot determine the validity and propriety of disbursements.

5.2 Payroll transfers

Transfers made to the payroll account were not supported by adequate documentation and the amounts transferred exceed the amount necessary to make payroll. The city disburses payroll and tax withholding from a designated payroll account which is funded by periodic transfers from the General, Street, Water, and Civic Center accounts. City officials indicated the procedure is to transfer \$4,500 quarterly to the payroll account, with 50 percent coming from the Water account, 25 percent from the General account, 15 percent from the Civic Center account, and 10 percent from the Street account. Actual transfers during 2009 totaled \$3,375, \$1,350, \$5,750, and \$2,025, from the General, Street, Water, and Civic Center accounts, respectively. The city maintains no documentation to support the allocation of payroll costs to any of the accounts and at December 31, 2009, the payroll account had a balance of approximately \$3,300. The city indicated the percentages transferred from each account have not changed in over 6 years.



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

The accounts of the city are established as separate accounting entities to account for specific activities of the city. Reflecting disbursements in the proper account is necessary to accurately determine the results of operations and/or specific activities, thus, enabling the city to establish the level of taxation and/or user fees necessary to meet operating costs. Also, adequate documentation and proper allocation of disbursements is useful for both management and planning purposes. Transfers for payroll should be allocated to the various city accounts based on actual time used or estimated time based on historical data. Excess monies remaining in the payroll account should be used before additional transfers are made in the future.

Recommendations

The Board of Aldermen:

- 5.1 Maintain detailed supporting documentation including original receipts for all disbursements.
- 5.2 Ensure payroll transactions are properly allocated from city accounts and supported by adequate documentation. In addition, transfers to the payroll account should be discontinued until the excess monies have been used and future transfers should be for the amount necessary to meet current payroll only.

Auditee's Response

The Board provided the following responses:

- 5.1 *We will ensure supporting documentation is attached to credit card statements in the future.*
- 5.2 *We will consider this recommendation.*

6. Sunshine Law

The city did not always demonstrate compliance with the Sunshine Law.

6.1 Closed meeting

Information provided in the October 26, 2009, closed session minutes was not sufficient to demonstrate that issues discussed were allowable under the Sunshine Law. The Board closed a meeting and cited an employee matter for closing the meeting, but the matter involved a contractor used by the city. In addition, the disciplinary decision voted on in closed session was not made public as required by law.

The Sunshine Law, Chapter 610, RSMo, requires the vote of each member of the governmental body and specific reason for closing a public meeting to be recorded in the open meeting minutes, and requires minutes of closed meetings be prepared. Issues not specifically allowed by the Sunshine Law should not be discussed in closed session. Meeting minutes should provide sufficient details of discussions to demonstrate compliance with statutory



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

provisions and support decisions made. In addition, some decisions made in closed session are required to be made public.

6.2 Meeting notices

The city did not retain copies of meeting notices held in 2009. Section 610.020.1, RSMo, requires a meeting notice be posted prior to all meetings of a public governmental body. The city should ensure copies of each meeting notice are retained to document compliance with state law.

Recommendations

The Board of Aldermen:

- 6.1 Ensure reasons for closing a meeting are documented and only allowable topics are discussed.
- 6.2 Ensure notices for each Board meeting are posted and retained.

Auditee's Response

The Board provided the following responses:

- 6.1 *We were unaware of how the Sunshine Law applied to this situation. We will ensure compliance with closed meetings in the future.*
- 6.2 *We agree with this recommendation and it has been implemented.*

7. Elected Officials

The city has not established adequate procedures to ensure all candidates for the position of alderman are qualified to run for office.

- During the April 2008 election, Alderwoman Jackie Burch was allowed to be listed on the ballot when she had not paid her 2007 personal property taxes, which were due December 31, 2007. These taxes were paid on April 17, 2008.
- During the April 2009 election, Alderwoman Kim Dyer was allowed to be listed on the ballot when she had not paid her 2008 real estate property taxes, which were due December 31, 2008. These taxes were paid on March 9, 2009.

Section 115.346, RSMo, provides that "no person shall be certified as a candidate for municipal office, nor shall such person's name appear on the ballot as a candidate for such office, who shall be in arrears for any unpaid city taxes or municipal user fees on the last day to file a declaration of candidacy for the office."

Recommendations

The Board of Aldermen ensure candidates for city office possess the statutory qualifications for holding office. The Board should also consider seeking legal advice from the city attorney regarding the situation.



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

Auditee's Response

The Board provided the following response:

We agree with this recommendation, and this has been implemented for all candidates for the April 2010 election, as well as for future elections.

City of Levasy

Organization and Statistical Information

The city of Levasy is located in Jackson County. The city was incorporated in 1901 and is currently a fourth class city.

Mayor and Board of Aldermen

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended December 31, 2009, are identified below. The Mayor and Board of Aldermen are not compensated.

Name and Title	Dates of Service During the Year Ended December 31, 2009
Phyllis Dieckmann, Mayor	January 2009 to December 2009
Jackie Burch, Alderwoman	January 2009 to December 2009
J. T. Dieckmann, Alderman	January 2009 to December 2009
Kim Dyer, Alderwoman	April 2009 to December 2009
Gene Milligan, Alderman	January 2009 to April 2009
Gerald Friedrich, Alderman	January 2009 to December 2009

Other Officials

Name and Title	Dates of Service During the Year Ended December 31, 2009	Compensation Paid for the Year Ended December 31, 2009
Carla Gilbert, City Clerk	January 2009 to December 2009	\$9,961

In addition to the officials identified above, the city employed one part-time employee on December 31, 2009.

A schedule showing receipts, disbursements, and changes in cash for each bank account for the year ended December 31, 2009 follows.



City of Levasy
 Organization and Statistical Information

	Civic Center Account	General Account	General Money Market Account	Street and Motor Account	Street and Motor Money Market Account	Water Department Account	Water Department Money Market Account	Water Department Deposit Account	Payroll Account
RECEIPTS									
Operating receipts	\$ 5,408	8,925	12,358	0	4,011	34,825	995	269	0
Transfers in	2,000	21,000	0	5,000	0	0	25,000	0	12,500
Total Receipts	7,408	29,925	12,358	5,000	4,011	34,825	25,995	269	12,500
DISBURSEMENTS									
Operating disbursements	4,929	22,463	0	3,543	0	28,680	0	50	11,549
Transfers out	2,025	5,375	21,000	1,350	5,000	30,750	0	0	0
Total Disbursements	6,954	27,838	21,000	4,893	5,000	59,430	0	50	11,549
RECEIPTS OVER (UNDER) DISBURSEMENTS	454	2,087	(8,642)	107	(989)	(24,605)	25,995	219	951
CASH BALANCE, JANUARY 1	1,037	2,614	47,913	447	2,860	32,049	133,991	5,952	2,380
CASH BALANCE, DECEMBER 31	\$ 1,491	4,701	39,271	554	1,871	7,444	159,986	6,171	3,331