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Missouri State Auditor

City of New Florence

July 2010

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YELLOW SHEET

Findings in the audit of the City of New Florence

Budgeting and Financial Reporting	Weaknesses were identified in the city's budgeting and financial reporting. Budgets do not include actual receipts and disbursements for the 2 proceeding budget years. The city's published semiannual financial statements do not fully comply with statutory requirements. The published financial statements do not include all city funds or the indebtedness of the city, and do not present a detailed account of expenditures.
Notices, Meetings, and Minutes	Procedures for conducting and documenting Board meetings need improvement. Various requirements in the Sunshine Law regarding open and closed meetings were not always followed. Meeting notices and agendas used the same statement to indicate the potential for a closed meeting, although no closed meeting was planned or held. Reasons for closing meetings were not always documented, some issues discussed may not be allowable under the Sunshine Law, and some decisions were not publicly disclosed. Agendas are not prepared for all Board meetings, and sufficient detail of matters discussed and action taken is not always documented in the minutes.
Accounting Controls and Procedures	There are numerous weaknesses in the city's accounting controls, records, and procedures. There is minimal oversight and inadequate segregation for the Accounts Clerk's duties. Receipt slips are not always prepared timely. Also, the method of payment, date, and preparer are not always documented. In addition, the composition of receipt slips issued is not reconciled to the composition of deposits and the numerical sequence of receipt slips issued is not always accounted for properly. Receipts are not deposited on a timely basis. Bank reconciliations are only performed for one of the city's ten bank accounts. The city does not maintain separate funds for the financial activity of its water and sewer operations. The city has not established a separate fund and/or accounting to ensure law enforcement training receipts are expended only for the purpose of local law enforcement training. The method of allocating payroll expense among the various city funds is not supported by documentation. Controls and records over the petty cash fund need improvement.
Utility Policies, Procedures, and Records	There are significant weaknesses in city operations related to gas, water, sewer, and trash services. The Board has not adopted a comprehensive ordinance regarding utility collections, fees, and delinquent accounts. The method of allocating late fees collected to the various utility operations is not supported by documentation. Delinquent accounts are not sent to the city's collection agency on a timely basis. The city does not compare or reconcile gallons of water billed to customers to gallons of water pumped. Additionally, the city does not reconcile the units of natural gas billed to customers to units of natural gas purchased. The method of payment is not always accurately posted to the city's computerized utility system and the composition of the receipts posted is not reconciled to the deposit. Although

the city retains an administration fee of almost $2 from each customer's monthly payment for trash services, the city has not documented the administrative costs of providing trash collection services.

Computer System

The city's computers and files are vulnerable to unauthorized use, modification, and destruction. Accounting and utility files are not backed up on a periodic, predefined basis. Access to computers and files is not adequately restricted to only authorized users, and a password is not required to access the utility system. Security controls are not in place to lock computers after a certain period of inactivity.

Expenditures

The city does not have a formal bidding policy for the purchase of goods and services. When bids/proposals were solicited, bid documentation was generally not retained. The city has not documented its evaluation and selection of engineering services. The agreements for city attorney services are not current, and the city does not obtain written agreements when providing services to its residents. Although a list of all expenditures is approved by the Board at the monthly meetings, the approved list is generally not retained.

Personnel Policies and Procedures

The city has not established an ordinance for employee compensation or the term of office or duties for the City Clerk. Records of leave earned, taken, and accumulated are deficient. As a result, the city has little assurance that payments for accumulated leave are proper. Also, payments made to terminated employees were not supported by documentation, and the city paid these employees more than required by policy. Some employee personnel files reviewed were incomplete.

Capital Assets

The city does not maintain comprehensive records of capital assets, property items are not tagged for specific identifications and annual physical inventories are not performed. Except for the two police cars, usage logs are not maintained for city vehicles, and fuel purchases are not reconciled to billing statements.

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City of New Florence
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SUSAN MONTEE, JD, CPA
Missouri State Auditor

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

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of New Florence. The city engaged Charles E. Montgomery, Certified Public Accountant (CPA), to audit the city's financial statements for the year ended June 30, 2009. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 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, 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 New Florence.

Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CGFM, CIA
Audit Manager:	Toni Crabtree, CPA
In-Charge Auditor:	Janielle Arens

1. Budgeting and Financial Reporting

Weaknesses were identified in the city's budgeting and financial reporting.

1.1 Budgets

Budgets do not include actual receipts and disbursements for the 2 preceeding budget years. Sections 67.010 to 67.080, RSMo, establish specific guidelines for the format and approval of annual 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 area of city operations. It will also assist in setting utility rates and informing the public about city operations and current finances.

1.2 Financial statements

The city's published semiannual financial statements do not fully comply with statutory requirements. The published financial statements do not include all city funds or the indebtedness of the city. In addition, the statements are not a detailed account of expenditures. Instead, the city publishes a summary total of payroll expenses, claims, and prepaid claims.

Section 79.160, RSMo, requires the city to prepare and publish " . . . a full and detailed account and statement of the receipts and expenditures and indebtedness of the city . . ." within a month of the end of the period. Complete and detailed financial statements are necessary to keep citizens informed of the financial activity and condition of the city.

Recommendations

The Board of Aldermen:

1.1 Prepare annual budgets that contain all information as required by state law.

1.2 Ensure the city's published semiannual financial statements present all financial information required by state law.

Auditee's Response

The Board provided the following response:

We agree with the State Auditor and we will implement the recommendations.

2. Notices, Meetings, and Minutes

Procedures for conducting and documenting Board meetings need improvement. Various requirements in Chapter 610 (the Sunshine Law) regarding open and closed meetings were not always followed.

2.1 Closed meeting notices

Meeting notices and agendas used the same statement to indicate the potential for a closed meeting, although no closed meeting was planned or held. The statement indicated the Board may include " . . . a vote to adjourn to closed session pursuant to 610.021(1,2,3,13) RSMo for possible discussion of real estate, litigation and personnel issues . . . ."

Section 610.022.2, RSMo, provides that a public governmental body planning to hold a closed meeting should follow the notice procedures for a regular meeting and include there will be a closed meeting and cite the specific exception allowing the closure of the meeting. A statement which includes potential issues that may be discussed in a closed meeting appears to circumvent the intent of the law.

2.2 Closed meetings

Reasons for closing meetings were not always documented. In addition, some issues discussed may not be allowable under the Sunshine Law and some decisions were not publicly disclosed.

- Although, open meeting minutes typically indicate the meeting is going into closed session, the specific reason and the vote to close the meeting are not always documented.

- The closed session minutes were not sufficient to demonstrate that issues discussed were allowable under the Sunshine Law. Some of the issues discussed included hiring a city engineer, the police department in general, requiring a purchase order for all purchases, appointing the mayor as contact person for economic issues, and the banking contract.

- The city does not always make available to the public the final disposition of applicable matters discussed in closed meetings. The hiring and firing of employees is generally not made available to the public nor was the purchase of real estate in August 2008 made available to the public.

Chapter 610, RSMo, provides that the question of holding a closed meeting and the reason for the closed meeting be voted on at an open meeting. The law also provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, and limits what types of topics can be discussed in closed meetings. In addition, Chapter 610, RSMo, and Attorney General's Opinion Nos. 129-97 to Green and 30-88 to Kelly, provide that after the closed meeting, the governmental body must disclose the vote of each member, not just the vote total or results. The vote also includes the proposition voted on and matters or materials referred to with the proposition. The minutes should provide sufficient details of discussions to demonstrate compliance with statutory provisions and support important decisions.

2.3 Open meetings

Agendas are not prepared for all Board meetings, and sufficient detail of matters discussed and action taken is not always documented in the minutes.

Agendas

An agenda is only prepared for regularly scheduled open meetings, not meetings held at other times. Section 610.020, RSMo, requires a " . . . notice of the time, date, and place of each meeting and its tentative agenda, in a manner reasonably calculated to advise the public of the matters to be considered . . . ." To adequately inform the residents of the business to be discussed during all meetings and ensure compliance with state law, a tentative agenda that summarizes the topics to be discussed during the meeting should be prepared and posted.

Detail in minutes

Board minutes did not always include sufficient detail of matters discussed and actions taken. For example, the minutes generally did not reflect records of votes, but rather "motion carried." In the April 2008 minutes, there was a vague reference to a survey, but no detail about the reason for the survey or why only certain citizens were sent the survey. Also, a memorandum regarding utility payments indicated Board approval in July 2008; however, the minutes did not disclose a discussion or approval of the memorandum.

Complete and accurate minutes provide an official record of Board actions and serve as the only official permanent record of decisions made by the Board. Inadequate or unclear meeting minutes can lead to subsequent misunderstandings as to the Board's intentions or the inability to demonstrate compliance with legal provisions. Therefore, it is necessary meeting minutes clearly document all business conducted.

Recommendations

The Board of Aldermen:

2.1 Ensure agendas/notices state the specific reasons for going into a closed meeting.

2.2 Ensure a roll call vote is taken during open meetings to close any meeting and minutes document the votes/reasons for holding a closed meeting. The Board should also ensure the items discussed in closed meetings are allowed by the Sunshine Law and are limited to only those specific reasons cited to justify such a closed meeting. Votes taken and decisions made in closed meetings should be properly disclosed to the public.

2.3 Ensure agendas that summarize topics to be discussed during the meeting are prepared and posted before each meeting. The Board should also ensure meeting minutes clearly document all business discussed and votes taken.

Auditee's Response

The Board provided the following responses:

2.1&
2.2 We agree with the State Auditor and we have already implemented the recommendations.

2.3 We agree with the State Auditor and we will implement the recommendation.

3. Accounting Controls and Procedures

There are numerous weaknesses in the city's accounting controls, records, and procedures. There is inadequate segregation of duties and a lack of oversight, and procedures for recording and depositing monies need improvement. Bank reconciliations are not prepared for all accounts, and weaknesses were noted in restricted fund procedures, the allocation of payroll expense, and petty cash controls.

3.1 Supervisory review

There is minimal oversight and inadequate segregation for the Accounts Clerk's duties. These duties include billing and recording utility fees; monitoring delinquent utility accounts; receiving and depositing monies; recording revenues and expenditures; preparing checks, monthly financial reports, and bank reconciliations; and maintaining payroll records. There is no evidence the Board provided adequate supervision or review of the work performed by the clerk. The current procedures jeopardize the system of independent checks and balances.

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. If proper segregation of duties is not possible, timely supervisory or independent review of the work performed and investigation into unusual items and variances is necessary.

3.2 Receipt slips

Receipt slips are not always prepared timely. Receipt slips are sometimes not prepared until the bank deposit is prepared. Also, the method of payment (cash, check, etc.), date, and preparer are not always documented. In addition, the composition of receipt slips issued is not reconciled to the composition of deposits and the numerical sequence of receipt slips issued is not always accounted for properly. During the year ended June 30, 2009, the city collected over $1 million in utility fees and other receipts, such as property and sales taxes, franchise fees, business and dog licenses, court receipts, and miscellaneous fees.

To ensure receipts are accounted for properly and to reduce the risk of loss, theft, or misuse of funds, receipt slips should be issued immediately when monies are received. In addition, the method of payment, date, and preparer should be recorded on each receipt slip, and the composition of receipts should be reconciled to the composition of deposits.

3.3 Deposits

Receipts are not deposited on a timely basis. Monies are generally deposited once a week. For example, four deposits were made in February 2009, with deposit totals ranging from $17,000 to $148,000.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, receipts should be deposited on a timely basis.

3.4 Bank reconciliations

Bank reconciliations are only performed for one of the city's ten bank accounts, the accounts payable account. Monthly bank reconciliations are necessary to ensure all accounting records balance, transactions have been properly recorded, and errors or discrepancies are detected on a timely basis. Complete documentation of the reconciliations should be maintained to support conclusions and corrections, and to facilitate independent reviews.

3.5 Water & Sewer Funds

The city does not maintain separate funds for the financial activity of its water and sewer operations. Currently, water and sewer transactions are accounted for in the same fund, the Proprietary Fund. Revenues, expenditures, and accumulated balances of the respective utility operations are not accounted for separately.

The utility operations are separate accounting entities designed to account for specific city activities. Utility receipts should be used only to fund the operations of the respective utility services. Rates for utility services should be set to cover the costs of producing and delivering the service (including administrative costs), repaying debt, if applicable, and repairing and replacing infrastructure.

Revenues and expenditures associated with specific activities should be recorded in a fund established to account for those activities. Complete and organized accounting records are necessary to provide accurate and timely financial information to city officials upon which effective management decisions may be made and to assist the city in establishing user fees necessary to meet operating costs.

3.6 Law enforcement training receipts

The city has not established a separate fund and/or accounting to ensure law enforcement training receipts are expended only for the purpose of local law enforcement training. During the year ended June 30, 2009, the city received local law enforcement training fees of $201 from the Montgomery County Associate Circuit Division and Peace Officer Standards and Training Commission monies of $500 from the state. These fees were deposited in the general bank account. Sections 488.5336 and 590.178, RSMo, provide these fees are to be used solely for the purpose of local law enforcement training. According to city records, the city provided funding totaling $150 for police personnel training in 2009.

3.7 Payroll expense allocation

The method of allocating payroll expense among the various city funds is not supported by documentation. Payroll expense is allocated to city funds based on the Board's direction. However, no detail of the activities performed by employees is maintained. Consequently, the city has limited support or reasons for these allocations.

Payroll expense is currently allocated by these percentages:

	Fund			
Position	General	Gas	Water/ Sewer	Street
City Clerk	50.0	25.0	25.0	0.0
Accounts Clerk	50.0	25.0	25.0	0.0
City Superintendent	0.0	25.0	37.5	37.5
Maintenance	0.0	25.0	37.5	37.5

The funds of the city are established as separate accounting entities to account for specific activities of the city. Reflecting expenses in the proper fund 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. Adequate documentation and proper allocation of expenses is useful for both management and planning purposes. Payroll expense should be allocated to the various city funds based on actual or estimated historical data.

3.8 Petty Cash

Controls and records over the petty cash fund need improvement. A log of petty cash transactions is not maintained and disbursements are not always supported by vendor invoices. Instead, handwritten notations are sometimes prepared by employees. Additionally, the fund is not periodically counted by the City Clerk. These weaknesses resulted in a shortage of $60 going undetected for several months, until identified by city personnel in May 2009.

The petty cash fund should be operated on an impress basis, meaning that cash and invoices should always equal the established balance, and checks issued to replenish the fund should equal the amount of the invoices. A petty cash log should be maintained of the receipts, disbursements, and balance of the fund. Periodically, the fund should be counted and reconciled to the imprest balance by an independent person to ensure the funds are accounted for properly, to detect errors, and to prevent misuse of these monies.

Recommendations

The Board of Aldermen:

3.1 Segregate the duties of the Accounts Clerk to the extent possible. If proper segregation of duties cannot be achieved, timely supervision or independent reviews of the work performed and investigation into unusual items and variances is necessary.

3.2 Ensure receipt slips are issued for monies when received with the method of payment, date, and preparer documented. The numerical sequence of receipt slips issued should be accounted for properly, and the composition of receipts should be reconciled to deposits.

3.3 Ensure receipts are deposited timely.

3.4 Ensure monthly bank reconciliations are prepared and retained for each bank account.

3.5 Establish separate funds for water and sewer activities. Additionally, the city should determine and establish the proper balance of the separate funds and maintain the separate balances in the future.

3.6 Establish a separate fund and/or accounting for law enforcement training receipts to ensure compliance with state law.

3.7 Ensure payroll expense is properly allocated to various city funds and the expense allocation is supported by adequate documentation.

3.8 Maintain the petty cash fund on an imprest basis and ensure the fund is periodically counted and reconciled to the imprest balance by an independent person. A log of petty cash fund transactions should be maintained to properly document the financial activity of the fund.

Auditee's Response

The Board provided the following responses:

3.1-3.3,
3.6&
3.7 *We agree with the State Auditor and we will implement the recommendations.*

3.4,3.5,
&3.8 *We agree with the State Auditor and we have already implemented the recommendations.*

4. Utility Policies, Procedures, and Records

There are significant weaknesses in city operations related to gas, water, sewer, and trash services. As a result, there is less assurance that utility monies are handled and accounted for properly.

Trash fees are billed and collected with the water/sewer and gas fees. According to the City Clerk, the current practice is to assess a 10 percent late fee if the bill is not paid by the 15th of the month. A delinquent notice is sent and residents have until the 25th of the month before their services are disconnected. There is a $25 reconnect fee for water and an additional $25 reconnect fee for gas. A delinquent bill is sent to the city's collection agency approximately 30 to 45 days after service is disconnected and fees are not paid. For the year ended June 30, 2009, gas, water/sewer, and trash receipts totaled approximately $224,600, $214,600, and $30,000, respectively.

4.1 Utility ordinance

The Board has not adopted an ordinance regarding utility collections, fees, and delinquent accounts. Although there are some written guidelines, these guidelines are not comprehensive or always followed. To ensure all utility accounts are handled equitably and in a consistent manner, the Board should establish a comprehensive ordinance to address utility collections, fees, and delinquent accounts.

4.2 Late fees

The method of allocating late fees collected to the various utility operations is not supported by documentation. Currently, late fees, per the Board's direction, are allocated 40 percent to gas revenues with the remainder split evenly between water, sewer, and solid waste revenues.

Adequate documentation and proper allocation of revenue is useful for both management and planning purposes. Late fee revenue should be allocated to the various city operations based on actual or estimated usage.

4.3 Delinquent accounts

Delinquent accounts are not sent to the city's collection agency on a timely basis. As of June 30, 2009, the city had 54 uncollected utility accounts totaling approximately $8,698. However, seven of these accounts, totaling over $900, have been delinquent for over a year and have not been submitted to the collection agency. Failure to submit delinquent accounts to the collection agency on a timely basis may result in lost revenue.

4.4 Reconciliations

The city does not compare or reconcile gallons of water billed to customers to gallons of water pumped. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent. Additionally, the city does not reconcile the units of natural gas billed to customers to units of natural gas purchased from the gas cooperative.

To help detect significant water loss on a timely basis and to help ensure water and gas usage is properly billed, the city should 1) reconcile the gallons of water pumped to gallons of water billed, and 2) reconcile the units of natural gas billed to units of natural gas purchased on a monthly basis. Significant differences should be investigated. Documentation of the reconciliation should be retained to support conclusions and to facilitate independent review.

4.5 Receipts

The method of payment (cash, check, etc.) is not always accurately posted to the city's computerized utility system and the composition of the receipts posted is not reconciled to the deposit. For example, although the February 25, 2009, deposit consisted of cash and checks; the utility system identified all payments received as cash.

To help ensure all monies received are accounted for, recorded, and deposited properly, the method of payment should be accurately recorded in the utility system and reconciled to the composition of the deposit.

4.6 Administrative fee

Although the city retains an administration fee of almost $2 from each customer's monthly payment for trash services, the city has not documented the administrative costs of providing trash collection services. With an average of 276 trash customers per month, this administrative fee totals over $5,400 a year. There is no documentation showing how the administrative fee for the trash service is determined.

To ensure the user fee charged to the city residents is set at a level sufficient to cover the costs of the service, the city should calculate and document the administrative costs of providing trash collection services.

Recommendations

The Board of Aldermen:

4.1 Adopt an ordinance to address utility collections, fees, and delinquent accounts.

4.2 Document the rationale for the allocation of late fees to the various city utility operations.

4.3 Ensure delinquent accounts are sent to the collection agency on a timely basis.

4.4 Compare the gallons of water pumped to gallons billed and the units of gas purchased to units billed on a monthly basis, and investigate significant differences.

4.5 Ensure the method of payment is recorded in the utility system and reconciled to the composition of deposits.

4.6 Review the costs of administering the trash pick-up services and document the amount of administration costs associated with the service.

Auditee's Response

The Board provided the following responses:

4.1,4.2,
4.4&
4.6 We agree with the State Auditor and we will implement the recommendations.

4.3&
4.5 We agree with the State Auditor and we have already implemented the recommendations.

5. Computer System

The city's computers and files are vulnerable to unauthorized use, modification, and destruction. Backup procedures, passwords, and security controls are not adequate.

5.1 Backups

Accounting and utility files are not backed up on a periodic, predefined basis. Although backups have been performed in the past, the backups are not performed frequently enough to provide recent transaction history for data recovery in the event of a disaster or computer failure. Currently, the utility files are backed up on a monthly basis; however, the last complete system backup is dated December 2007.

Computerized records are at risk of loss due to equipment failure or other electronic disaster. Preparation of backup records, on at least a weekly basis along with off-site storage, would provide increased assurance city data could be recreated if necessary.

5.2 Passwords

Access to computers and files is not adequately restricted to only authorized users. Although passwords are required to access the computerized accounting system, assigned users do not change their passwords periodically, resulting in increased risk that a password could be compromised. Additionally, a password is not required to access the utility system. An ineffective password system increases the risk of unauthorized access and changes to computer systems and records.

5.3 Security controls

Security controls are not in place to lock computers after a certain period of inactivity. An unauthorized individual could access an unattended computer and have unrestricted access to programs and data files. To help protect computer records, current security controls should be updated to lock computers after a certain period of inactivity.

Recommendations

The Board of Aldermen:

5.1 Ensure data is backed up on a regular, predefined basis and stored at a secure off-site location.

5.2 Require passwords be changed periodically to help prevent unauthorized access to the computers and data.

5.3 Update current computer security controls to lock computers after a certain period of inactivity.

Auditee's Response

The Board provided the following response:

We agree with the State Auditor and we will implement the recommendations.

6. Expenditures

The city does not have a formal bidding policy, document its evaluation and selection of engineering services, and obtain written agreements for some services. In addition, the Board's review and approval of expenditures is not always retained.

6.1 Bidding policy

The city does not have a formal bidding policy for the purchase of goods and services. As a result, the decision whether to solicit bids/proposals for a particular purchase was made on an item-by-item basis. Also, when bids/proposals were solicited, bid documentation was generally not retained.

For example, bids were not solicited and/or bid documentation was not retained for 1) audit services, $7,950; 2) cleaning supplies for the sewer system, $3,474; 3) fire hydrants, $2,373; and 4) a gas indicator meter, $1,300. Also, the trash collection service has not been bid for many years.

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 also helps ensure all parties are given equal opportunity to participate in city business. In addition, written documentation of bids should be maintained. Bid documentation should include a list of vendors contacted, a copy of the bid specification, copies of all bids received, justification for awarding the bid, and documentation of discussions with vendors.

6.2 Engineering services

The city has not documented its evaluation and selection of engineering services. From July 2008 through December 2009, the city paid its engineering firm over $194,000. Sections 8.289 to 8.291, RSMo, provide guidance on the selection of engineering services.

6.3 Written agreements

The agreements for city attorney services are not current, and the city does not have written agreements for other services.

Attorneys

The city has not updated written agreements with the city attorney and his firm since 2000. Also, these agreements are between the city and the city attorney's former firm. One agreement provides for a monthly retainer of $1,000 for city attorney services. The second agreement provides for various hourly rates for special counsel services. In addition, the city needs to evaluate the services provided under the monthly retainer since many services provided by the city attorney are under the special counsel agreement, which provides for a higher rate. During the year ended June 30, 2009, the city paid its attorney and his firm over $70,000. In addition, the city pays its prosecuting attorney $250 a month, without a written agreement defining the scope of services and compensation.

Citizens

The city does not obtain written agreements when providing services to its residents, such as splitting the cost of sidewalk repairs and other similar projects. For example, a resident requested the city fix erosion problems by installing a small concrete pad on his property. As a result of not obtaining a written agreement with the property owner, the city was unable to collect the property owner's share totaling $462, which he refused to pay after the pad was completed.

Conclusion

Written agreements, signed by both parties, should be obtained and/or periodically updated to ensure all parties understand and abide by the terms of the agreement. In addition, Section 432.070, RSMo, requires all contracts to be in writing.

6.4 Board approval

Although a list of all expenditures is approved by the Board at the monthly meetings, the approved list is generally not retained.

A monthly list of expenditures is prepared by the City Clerk, approved by the Board, and signed by the Mayor. The city could not locate the approved signed lists for July 2008 through September 2009.

To adequately document the Board's review and approval of expenditures, the approved list of expenditures should be retained either with the official minutes or in a secure location.

Recommendations

The Board of Aldermen:

6.1 Establish formal bidding policies and procedures, including documentation requirements and justification for the bid/proposal selected.

6.2 Solicit engineering services in accordance with state law.

6.3 Ensure written agreements are obtained and periodically updated, as needed. The Board should also evaluate the services provided under the monthly retainer agreement.

6.4 Ensure the approved monthly list of expenditures is retained with the official minutes or in a secure location.

Auditee's Response

The Board provided the following responses:

6.1-6.3 We agree with the State Auditor and we will implement the recommendations.

6.4 We agree with the State Auditor and we have already implemented the recommendation.

7. Personnel Policies and Procedures

Employee compensation is not established by ordinance. Also, records of leave earned, taken, and accumulated are deficient. As a result, the city has little assurance that payments for accumulated leave are proper. In addition, some personnel files are not complete, and performance appraisals are not always given on an annual basis.

7.1 Compensation

The city has not established an ordinance for employee compensation or the term of office or duties for the City Clerk.

Section 79.270, RSMo, provides that city officers and employee salaries be set by ordinance, and Section 79.320, RSMo, requires the City Clerk's duties and term of office be established by ordinance.

7.2 Leave

Leave records are not adequate. Annual, sick, and compensatory leave used is recorded on the employee's time sheet and payroll ledger and posted to the computerized payroll system. The payroll system only maintains a current balance based on the information entered. Thus, a history of leave earned, taken, and accumulated is not available from the system.

Additionally, the supporting documentation to ensure the accuracy of the computerized system information is not sufficient. Although sick and compensatory leave is tracked on computerized and manual spreadsheets, respectively, spreadsheets to track annual leave hours earned, taken, and accumulated are not maintained. Also, the spreadsheets prepared are unreliable. For example, we noted an employee took 8 hours of sick leave that was not recorded on a spreadsheet. Another employee was paid for 8 hours of sick leave even though her accumulated balance was 4 hours. Furthermore, spreadsheets could not be located for some employees reviewed.

Without adequate leave records, the city cannot ensure payments made for leave are correctly calculated and leave time taken is not in excess of time accumulated.

7.3 Payments to terminated employees

As a result of the poor leave records, payments made to terminated employees were not supported by documentation, and the city paid these employees more than required by policy. The city paid the former Superintendent and City Clerk for accumulated leave upon their termination of employment. The Superintendent was paid $3,090 for 144 hours of annual leave and $429 for 20 hours of compensatory time. The City Clerk was paid $1,620 for 102 hours of annual leave and $63 for 4 hours of sick leave. However, according to the Employee Handbook, the maximum accumulated annual leave allowed for both of these employees, based on their length of service, should have been 80 hours. In addition, spreadsheets were not available to substantiate the accumulated hours paid for the compensatory leave, and the handbook does not address the payment of sick leave on termination of employment.

The Employee Handbook provides that only full-time employees receive benefits. Annual leave is earned based on length of service and must be used in the year earned. Any accrued annual leave not used by the employee is forfeited. Sick leave is earned at 4 hours a month (48 hours annually) and must not exceed 160 hours at the end of the fiscal year. Any sick leave over 160 hours is forfeited. Compensatory leave can only accrue to a maximum of 20 hours.

Payments to terminated employees for unused leave needs to be supported by adequate documentation to ensure payments comply with city policy.

7.4 Personnel files

Some employee personnel files reviewed were incomplete. An acknowledgment form for receiving the Employee Handbook was not in four of seven files, current annual performance reviews were not in three of eight files, and a termination letter was not in two of six files reviewed. It is city policy these items be placed in an individual's personnel file.

The Employee Handbook provides that regular employees should be appraised annually, at fiscal year end. Performance appraisals can be used to evaluate employees for salary increases and other personnel actions. In addition, performance appraisals can document and support a decision to terminate employment.

Complete personnel files should be maintained for all employees to document each individual's employment status and pay information, and to avoid possible misunderstandings.

Recommendations

The Board of Aldermen:

7.1 Establish the compensation of city officers and employees by ordinance. In addition, the duties and term of office for the City Clerk should be set by ordinance.

7.2 Ensure adequate leave records are maintained for all employees. Accurate spreadsheets should be prepared to track all leave earned, taken, and accumulated. In addition, spreadsheet balances should be reconciled to the computerized payroll system on a monthly basis for each employee.

7.3 Ensure payments for accumulated leave to terminated employees are supported by adequate documentation and in compliance with city policies.

7.4 Ensure complete personnel files are maintained for all employees, and annual performance appraisals are completed.

Auditee's Response

The Board provided the following responses:

7.1,7.3 &7.4 *We agree with the State Auditor and we will implement the recommendations.*

7.2 *We agree with the State Auditor and we have already implemented the recommendation.*

8. Capital Assets

The city does not maintain comprehensive records of capital assets. Also, usage logs are not maintained for city vehicles.

8.1 Records

Although the city's CPA firm maintains a list of capital asset values, which are recorded on the city's financial statements, the city does not maintain a comprehensive record of capital assets, including land, buildings, infrastructure, equipment, and furniture. Additionally, the CPA's list is not complete. The list did not include items such as a backhoe, grader, and trencher; a mobile home used by the Police Department; or infrastructure for the water/sewer systems. Also, property items are not tagged for specific identifications and annual physical inventories of the property are not performed.

Capital asset records are necessary to ensure accountability and proper insurance coverage for city property. To develop appropriate records and procedures for capital assets, the city should undertake a comprehensive review of all property owned by the city and establish policies and procedures for capital assets.

8.2 Fuel and usage logs

Except for the two police cars, usage logs are not maintained for city vehicles, and fuel purchases are not reconciled to billing statements. Without adequate usage logs, the city cannot effectively monitor that vehicles are used only for official business. Also, by not reconciling fuel purchases to billing statements, the city has less assurance billing statements are accurate and fuel costs are reasonable. Fuel purchases totaled over $9,400 for the year ended June 30, 2009.

Recommendations

The Board of Aldermen:

8.1 Maintain property records for capital assets that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. These records should be updated for property additions and dispositions as they occur, and annual physical inventories should be performed and compared to the detailed records. In addition, all capital assets should be tagged as property of the city.

8.2 Maintain usage logs for all city vehicles and reconcile fuel purchases to billing statements.

Auditee's Response

The Board provided the following response:

We agree with the State Auditor and we will implement the recommendations.

City of New Florence
Organization and Statistical Information

The City of New Florence is located in Montgomery County. The city was incorporated in 1869 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 June 30, 2009, are identified below. Until their compensation was abolished by ordinance in November 2008, the Mayor and Board of Aldermen members were paid $100 and $25 per month, respectively.

Name and Title	Dates of Service During the Year Ended June 30, 2009
John Burroughs, Mayor	April - June
Melody Bartlett, Mayor	July - April
Gerry Schindler, Alderman	April - June
Eugene Devlin, Alderman (1)	July - December
Andy Johnson, Alderman	April - June
Jerry Farrar, Alderman	July - April
Corey Johnson, Alderman (2)	October - June
Loretta Horn, Alderwoman	July - August
Tonya Meyers, Alderwoman (3)	July - June

(1) Eugene Devlin resigned from the Board in December 2008.

(2) Corey Johnson was appointed by the Board of Aldermen to fill the remainder of Loretta Horn's term after she resigned from the Board in August 2008.

(3) Tonya Meyers was replaced by Amy Talbot in the April 2010 election.

Other Officials

Name and Title	Dates of Service During the Year Ended June 30, 2009	Compensation Paid for the Year Ended June 30, 2009
Adell Jonas, City Clerk	April - June	$ 4,962
Barbara Hinton, City Clerk	July- April	22,639
Bonnie Norwald, City Clerk	July	2,066
Thomas Cunningham, City Attorney (1)	July - June	70,317
James Burlison, Prosecuting Attorney (2)	July - June	3,000

(1) The city was billed by the law firm of Cunningham, Vogel & Rost, P.C. $1,000 a month as a retainer and various hourly rates for city attorney and special counsel services, respectively.

(2) James Burlison received a monthly fee of $250 as prosecuting attorney.

In addition to the officials identified above, the city employed 3 full-time employees and 3 part-time employees on June 30, 2009.