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Audit of Financial Statements, 2006

City of Breckenridge Hills

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Hochschild, Bloom & Company LLP

Certified Public Accountants
Consultants and Advisors

August 14, 2006

Mayor and City Council
CITY OF BRECKENRIDGE HILLS, MISSOURI

Our audit of the financial statements of the **CITY OF BRECKENRIDGE HILLS, MISSOURI** (the City) for the year ended December 31, 2005, was performed in accordance with U.S. generally accepted auditing standards. We obtained an understanding of the internal control to determine our audit procedures. Per our independent auditors' report, we applied limited procedures to the supplemental information.

There were no significant changes to the City's accounting policies or estimate policies. There were no disagreements or difficulties encountered in performing the audit. There were no uncorrected misstatements aggregated by us during the audit that would be material individually or in the aggregate to the financial statements taken as a whole. Various adjusting entries had to be made adjusting balance sheet and revenue/expenditure accounts.

In planning and performing our audit, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. However, during our audit we noted certain matters involving control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The memorandum that accompanies this letter entitled "Internal Control and Management Comments and Recommendations" (items numbered 1, 6, and 11) summarizes our comments and suggestions regarding those matters. We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and recommendations with various City personnel.

Also, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter entitled "Internal Control and Management Comments and Recommendations" (all items except nos. 1, 6, and 11) summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 14, 2006 on the financial statements of the City.

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We wish to express our appreciation for the cooperation and courtesy extended to us by all personnel. We will be pleased to discuss these recommendations with you in greater detail at your convenience. Should you desire assistance in the implementation of these recommendations, please do not hesitate to contact us.

Hochschild, Bloom & Company LLP
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF BRECKENRIDGE HILLS, MISSOURI
INTERNAL CONTROL AND MANAGEMENT
COMMENTS AND RECOMMENDATIONS

Findings for the year ended December 31, 2005:

1. COMMENT

As noted in the prior year, the City transferred various amounts from the Capital Improvement Fund to the General Fund for reimbursement of previous "capital and related" expenditures. We noted that some of these transfers were for software. There is a Missouri Attorney General opinion (254-000) that certain software is not allowed to be purchased with special capital improvements tax. We also noted the listing was developed by the City Clerk but that the detail was not checked by another person.

RECOMMENDATION

We continue to recommend that the City review the propriety of the detailed items transferred and have another person verify the detail of the cost of items transferred in the prior year. We also continue to recommend that any amount be transferred back, if appropriate.

2. COMMENT

As noted in the prior year, various funds, including the Capital Improvement and Sewer Lateral Funds, are not maintained on the computerized accounting system.

RECOMMENDATION

We recommended the City consider maintaining detailed activity on the computerized accounting system in order to be able to produce financial data for management and outside users as appropriate. The City is trying to address this issue, but the process has not been completed. The Capital Improvement and Sewer Lateral Funds are still not part of the computerized accounting system.

3. COMMENT

As noted during our testing of a sample of cash disbursements in the prior year, proper supporting documentation for the General Fund could not be located for one invoice and supporting documentation was eventually located after searching for a second invoice. For the year ended December 31, 2005, not all invoices for the Capital Improvements Fund were filed properly. In one situation a vender was paid off an invoice and a duplicate payment was made off a statement.

RECOMMENDATION

We continue to recommend that all invoices be properly filed to avoid missed payments or duplicate payments. Additionally, we continue to recommend that proper procedures for payments be put in place for all funds to insure this situation does not occur in the future.

4. COMMENT

As noted in the prior year, a purchase order was dated after the invoice date in one instance and missing altogether in two instances. Also, we noted that the invoice was a faxed copy and the original was missing. Invoices were not marked as paid and expenditure account numbers were

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not noted on the invoices. In the current year, this situation continues to be a problem for the City. Sometimes payment is made for the items in order to avoid late fees and the purchase order is obtained after the fact.

RECOMMENDATION

We recommend that proper procedures for cash disbursements be followed. Properly authorized purchase orders should be obtained before the purchase is made. Payments should be made from original invoices and not faxed copies to avoid duplicate payments. Also, paid invoices should be marked as such including expenditure account number.

5. COMMENT

As noted in the prior year, checks that were written to transfer funds were not recorded properly as outstanding deposits on the receiving funds' bank reconciliations.

RECOMMENDATION

For the year ended December 31, 2005, this continued to be an issue for a check written from the General Fund to the Sewer Lateral Fund. It was shown as an outstanding check in the General Fund but not as an outstanding deposit in the Sewer Lateral Fund. We continue to recommend that bank reconciliations be properly prepared for all bank accounts to accurately reflect the financial activity of the City.

6. COMMENT

As noted in the prior year, the Court Clerk performs all the transactions for the Court Bond Fund then prepares the monthly bank reconciliation.

RECOMMENDATION

We continue to recommend that a person outside the authority of the court perform the monthly bank reconciliation in an effort to establish a segregation of duties for stronger internal control.

7. COMMENT

As noted in the prior year, we noted several errors occurred in the Court Bond Fund. Of those items, the following is a list of errors that continue to be a problem:

There are numerous outstanding bonds that may be outdated and should be forfeited, but the process to accomplish broke down. Therefore, these bonds are sitting on the books because the case for forfeiture has not been brought before the judge.

The Outstanding Bonds Listing lists an amount of \$254.90 as negative bonds.

RECOMMENDATION

Steps have been taken since year-end to resolve the above noted issues and prevent them from recurring in the future. We recommend the follow-up continue on the outstanding bonds in order to facilitate the recording of forfeiture income in a timely manner.

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8. COMMENT

As noted in the prior year, the City incurred expenditures in excess of budgeted amounts in various accounts.

RECOMMENDATION

During 2005, the City amended their budget amounts so that expenditures were not incurred without an appropriation.

9. COMMENT

As noted in the prior year, upon review of the General Fund trial balance, it was noted that two accounts had "Due To" balances which were payable to the Police Training and Crime Victim's Compensation Funds. In addition, one liability account did not have any activity during fiscal years 2002 through 2004.

RECOMMENDATION

Several liability accounts are still on the books without any activity. We continue to recommend the City investigate the source of the funds and properly process the amounts as soon as possible.

10. COMMENT

As noted in the prior year, the City does not have a long-term (5-10 year) capital improvements budget.

RECOMMENDATION

We continue to recommend the City consider long-range fiscal planning tools in order to properly communicate its long-term strategy for use of its Capital Improvement Funds.

11. COMMENT

As noted in the prior year, we believe certain steps could be taken to improve internal controls.

RECOMMENDATIONS

While it is acknowledged that the City has limited personnel available to perform certain functions, we continue to make the following recommendations for consideration:

Cash -- Incoming mail should be opened and cash receipts listed by personnel having no access to cash receipts records.

An employee having no access to cash should subsequently compare the listing of mail receipts to cash receipts records and authenticated copies of deposit slips.

Personnel independent of the mail opening and cash receipt listing function should enter receipts into the books of original entry.

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Receipts of currency should be controlled by cash register or other independent means that are unavailable to the bookkeeping function.

No one employee in the cash disbursements function should have purchasing, receiving, disbursing, and/or general ledger functions.

Payroll -- A reconciliation of gross and net pay amounts as shown on tax returns to total payroll on the payroll register and the general ledger should be prepared on a regular basis.

General -- An official who is not involved in the preparation of the journal entries should approve all general journal entries that are not standard entries.

12. COMMENT

As noted in the prior year, the City does not have an accounting policies and procedures manual. A current accounting and procedures manual can help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good manual should aid in the training of new employees and allow for delegation to other employees of some accounting functions. Written procedures will help reduce misunderstandings, duplicated procedures, and potential fraud possibilities.

RECOMMENDATION

We continue to recommend the City develop an accounting and procedures manual in order to communicate its accounting procedures to other personnel and also to document the approved procedures. It will take some time and effort for management to develop a manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel.

13. COMMENT

As noted in the prior year, a detailed organization chart does not currently exist that clearly delineates responsibilities of each individual and all lines of departmental authority. Without a detailed organization chart, there may be confusion about whom is really accountable for particular areas and to whom employees are responsible.

RECOMMENDATION

We continue to recommend an organization chart be prepared and maintained in sufficient detail to indicate the City's major areas of operations, the person responsible for each area, and to whom supervisors and employees report.

14. COMMENT

We noted that the minutes of council meetings were not being prepared in a timely manner.

RECOMMENDATION

We recommend the minutes of the council meetings be prepared in advance of the next council meeting for approval of the Mayor and Council Members.

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15. COMMENT

We noted that a physical inventory of Capital Assets is not being prepared annually.

RECOMMENDATION

We recommend a physical inventory be taken of all Capital Assets annually.
