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## MANAGEMENT LETTER

The Honorable Mayor and City Council  
City of Butler, Missouri

We have audited the basic financial statements of the City of Butler, Missouri as of and for the year ended March 31, 2010, and have issued our reports thereon dated July 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Butler, Missouri's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Butler, Missouri's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Butler, Missouri's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify a deficiency in internal control that we consider to be a significant deficiency that is noted in item A below.

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As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of an objective of our audit. However, providing an opinion on compliance with those provisions was not an objective of our audit. The results of our tests disclosed an instance of noncompliance required under *Government Auditing Standards*, as described in item B through C below.

During our audit, we also became aware of other control related matters, which we believe represent opportunities for strengthening internal controls and operating efficiency that are noted in items D through I below.

**A. SEGREGATION OF DUTIES**

The functions of receipting, depositing, and recording monies are sometimes performed by the same person. Controls are weakened when one person is responsible for the above functions. Lack of personnel and the inability to fund additional positions are the primary reasons adequate segregation of duties cannot be achieved in small organizations. Although secondary controls exist through the oversight from the council, efforts should continue to further strengthen controls in this area.

**B. BUDGET COMPLIANCE**

The City was not in compliance with the budget statutes as outlined in the Missouri Revised Statutes (Chapter 67, RSMo.) regarding the Airport Fund. The City is required by Missouri law to adopt a budget and make any adjustments, at regularly scheduled meetings, necessary to have budgeted expenditures by fund exceed or equal to actual expenditures. We recommend the City closely monitor its expenditures for each fund on a monthly basis, and amend the budget as necessary to comply with budget statutes.

**C. REQUIRED PUBLICATIONS**

As a City government, there are certain publications that are required to be made about various issues and hearings. During our audit, the City was unable to produce documentation of some of their required publications. We recommend that the City keep a file for the sole purpose of tracking all publications made by the City throughout the year.

**D. DAILY DEPOSITS**

As noted in our audit of the City of Butler, Missouri for the year ended March 31, 2009, daily deposits were not being made by the City. Since cash is so readily subject to error and mishandling, effective control of checks, currency, and other cash items should begin at the time of receipt and continue through deposit, custody, and disbursement. To ensure that cash receipts are being deposited intact in the proper bank accounts, we continue to recommend that all cash receipts be deposited intact daily.

**E. BANK RECONCILIATIONS**

The preparation and review of monthly bank reconciliations are primary internal control components. Failure to prepare and properly review bank reconciliations for all bank accounts held by the City may result in misclassification of cash transactions, misappropriation of cash and errors or irregularities that may not be detected in a timely manner. We continue to recommend the City reconcile all bank and CD accounts as each statement is received and maintain documentation of such actions taken.

**F. AUTHORIZATION OF BANK ACCOUNTS**

While confirming the City's authorized accounts, we found two unauthorized accounts that had been established using the City's identification numbers. No authorizations to establish these accounts could be found. Even though this is not a failure of the City's internal control, it should concern the City when individuals can establish and control bank accounts without the City's knowledge or authorization. We recommend that the City correspond with all of the banks in the community and remind them that each bank account opened must have authorization by a vote of the City council to be established.

**G. REIMBURSEMENT DOCUMENTATION**

Certain disbursements, such as reimbursements for meals and mileage for employees who travel on business for the City are approved by the Council for disbursement. However, the City does not maintain records of receipts or mileage logs for the reimbursed expenses. We recommend policies and procedures be implemented requiring receipts and mileage logs for expense reimbursements and that a copy this documentation be held on file by the City.

**H. PURCHASE ORDERS**

Our audit tests indicated that purchase orders are occasionally prepared after items are received. This practice may defeat the control a purchase order system is intended to provide. To help monitor the volume of purchases due to budget constraints and ensure that purchases are initiated with proper approval, we recommend that purchase orders be prepared and approved before items are received or ordered by other means.

**I. FIXED ASSETS**

The City does not maintain a current inventory listing of all fixed assets owned by the City. We recommend that the City maintain a current listing of fixed assets to better track property belonging to the City.

This report is intended solely for the use of the City Council and management of the City of Butler, Missouri.

*DSWA Certified Public Accountants, P.C.*

Butler, Missouri  
July 1, 2010