



Thomas A. Schweich
Missouri State Auditor

FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Diamond

August 2013
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<http://auditor.mo.gov>

City of Diamond

Follow-Up Report on Audit Findings

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*Includes selected findings



THOMAS A. SCHWEICH

Missouri State Auditor

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2013-07, *City of Diamond*, issued in January 2013, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the city about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
 - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
 - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
 - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
 - Not Implemented: Auditee has not implemented the recommendation and indicates that it will not do so.

Our methodology included working with the city, prior to completion of the audit report, to develop a timeline for the implementation of corrective action related to the audit recommendations. As part of the AFTER work conducted, we reviewed supporting documentation submitted by city officials and held meetings with city officials. Documentation provided by the city included the 2013 budget, bank statements, receipt and deposit records, disbursement reports, and open and closed meeting minutes. This report is a summary of the results of this follow-up work, which was substantially completed during July 2013.

A handwritten signature in black ink that reads "Thomas A. Schweich".

Thomas A. Schweich
State Auditor

City of Diamond

Follow-Up Report on Prior Audit Findings

Status of Findings

1.1 City Sales Tax

The city did not allocate a portion of sales tax revenue to parks and recreation as originally provided in a city ordinance at the time the one-half cent sales tax issue was approved by voters. The city collected approximately \$35,000 in sales tax during the year ended June 30, 2012, which, based upon city calculations, would have resulted in approximately \$8,750 for parks and recreation. While city officials believed the city was not legally required to follow the restriction, they did not obtain documentation to indicate legal counsel was consulted.

Recommendation

The Board of Aldermen consult legal counsel to determine if the city is legally authorized to amend the original sales tax ordinance to eliminate the parks and recreation restriction, and if applicable, calculate the amount of park and recreation revenue for prior years and transfer that amount from the city's General Fund to a fund restricted for parks and recreation.

Status

Implemented

The Board of Aldermen approved a resolution in March 2013 to allocate 1/8 cent of the general sales tax to the Parks and Recreation Fund. As of May 31, 2013, the Parks and Recreation Fund had received \$1,955. The city did not calculate the amount not transferred to the Parks and Recreation Fund in prior years based upon a written legal opinion from their attorney.

1.2 Tax Exempt Lease

A tax exempt lease agreement in the city's name totaling \$11,173 was used to finance a copy machine for the private law office of the city's attorney. There was no documentation to indicate the Board approved this obligation. This arrangement potentially obligated the city to pay the lease and resulted in sales taxes and income taxes not being paid related to this transaction.

Recommendation

The Board of Aldermen instruct the city's attorney to correct the filings he has made with the IRS, bank, and copier company, and provide documentation to the city to support these corrections.

Status

Implemented

The city attorney refinanced the copier lease obligation in the name of his law firm in May 2013.

2.1 Disbursement Approval and Documentation

Some disbursements were not properly approved and supported by adequate documentation. Although the Board approved a list of disbursements each meeting, the list was not always complete, and in some instances not retained.



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Recommendation The Board of Aldermen ensure documentation is maintained for all disbursements and the list of disbursements approved at the monthly Board meeting is complete and retained.

Status **Implemented**

According to the City Clerk invoices are now maintained for all disbursements. Invoices, along with a copy of the check, are filed together by vendor name. A list of disbursements approved by the Board is now included in the board meeting minutes.

2.3 Procurement Procedures The city did not always comply with city code requiring city officials to advertise for bids for items or services costing more than \$5,000.

Recommendation The Board of Aldermen ensure bids are solicited in accordance with city code.

Status **Implemented**

The city complied with city code in 2013 by soliciting bids for a lawn mower, brush hog, building materials, and auditing services.

3.1 Segregation of Duties The duties of receiving, recording and depositing all monies were primarily performed by the City Collector. Additionally, the City Collector was responsible for billing and tracking all utility and property tax accounts, which included posting adjustments to customer utility accounts.

Recommendation The Board of Aldermen adequately segregate the duties of the City Collector. If this is not possible, at a minimum, the Board should perform and document the review of the City Collector's work.

Status **Implemented**

The City Clerk is now responsible for sending utility billings and reviewing the daily receipt records and deposits prepared by the City Collector. The City Clerk documents her review by initialing the deposit slip and receipt record. Additionally, monthly reports of tax and utility collections are now submitted to the Board of Aldermen.

3.2 Receipting and Depositing Procedures Receipt slips were not issued for some payments and receipt slips did not always correctly document the method of payment. Additionally, receipts were not deposited timely, receipts were not issued in numerical order, all copies of voided receipt slips were not retained, and receipts were not always deposited into the proper city bank account.

Recommendation The Board of Aldermen ensure receipt slips are issued for all monies received, the composition is documented correctly on receipt slips, all



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monies are deposited intact in the proper city bank account and in a timely manner, and the composition of receipts is reconciled to the composition of deposits. Additionally, the Board should ensure the numerical sequence of receipt slips is accounted for properly and all copies of voided receipt slips are retained.

Status

Implemented

According to the City Clerk, all monies received are recorded in manual receipt books or computerized receipt records. The method of payment is included on receipt records and reconciled to deposits, and deposits are now made intact daily into the correct city bank account. The numerical sequence of receipt numbers is accounted for and voided receipt slips are retained.

3.3 Recording Procedures

Monies received are not always posted to the city's computer system timely, and the computer system allowed receipt transactions to be posted to prior periods.

Recommendation

The Board of Aldermen ensure receipts are posted to the computer system timely and contact the programmer to determine if control features can be incorporated into the computer system to prevent receipts from being recorded in a prior period. If software changes cannot be made, the back dated transaction report should be generated and reviewed periodically.

Status

Partially Implemented

According to the City Clerk, receipts are now posted to the computer system daily. The City Clerk indicated she consulted with the programmer to determine if control features can be incorporated into the computer system to prevent receipts from being recorded in a prior period and determined that while such controls can be put in place the controls can be overridden by herself and the City Collector because both have administrative rights in the computer system. According to the City Clerk, a back dated receipt would be included on month end reports and would be caught.

8.1 Open Meetings

Minutes were not prepared for some open meetings, and meeting minutes did not always contain some necessary information.

Recommendation

The Board of Aldermen maintain complete and accurate minutes for open meetings.



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Status

Implemented

The City Clerk indicated complete and accurate minutes are now maintained for all open meetings and contain all required information. Board meeting minutes for May and June 2013 contained adequate detail of discussion and votes.

8.2 Closed Meetings

Open meeting minutes did not record a roll call vote to enter closed session or a specific reason for entering into closed session, closed meeting minutes were not prepared for some closed meetings, and some issues discussed in closed meetings were not allowable under the Sunshine Law. In addition, a closed meeting was held although not listed on the meeting agenda.

Recommendation

The Board of Aldermen ensure the vote to close a session is documented in the open minutes, along with the reason for closing the session. In addition, the Board should ensure only allowable subjects are discussed in closed session, minutes are maintained for all closed sessions, and reasonable notice is given for all meetings.

Status

Implemented

According to the City Clerk minutes of all closed meetings are maintained and the Sunshine Law is followed. We reviewed closed meeting minutes for April 2013 with no concerns noted.