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FOLLOW-UP REPORT ON AUDIT FINDINGS

City of Leeton

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City of Leeton

Follow-Up Report on Audit Findings

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*Includes selected findings



NICOLE R. GALLOWAY, CPA
Missouri State Auditor

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

We have conducted follow-up work on certain audit report findings contained in Report No. 2014-091, *City of Leeton* (rated as Poor), issued in September 2014, 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 provided by city personnel and met with city officials. Documentation included meeting minutes, budgets, bank statements, receipt and deposit records, and various other financial records. This report is a summary of the results of this follow-up work, which was substantially completed during April 2015.

Nicole R. Galloway, CPA
State Auditor

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Status of Findings

1.1 Accounting Controls and Procedures - Segregation of duties

The Board of Aldermen (Board) had not segregated duties or provided for adequate review of the work performed by the City Clerk. The City Clerk was responsible for receiving, recording, and depositing monies; reconciling bank accounts; preparing invoices for payment; and preparing, signing and distributing checks. Additionally, the City Clerk was responsible for utility billings and payroll related duties. Many of these duties would have normally been performed by a City Treasurer and City Collector; however, the city did not have individuals serving in these positions.

Recommendation

The Board of Aldermen consider appointing separate individuals to the position of City Clerk, City Collector, and City Treasurer to adequately segregate duties. If this is not possible, the Board should perform and document review of the City Clerk's work.

Status

In Progress

The Board has segregated some duties and appointed a separate individual to the position of City Treasurer. The City Clerk is still responsible for receiving, recording, and depositing funds. The City Clerk also prepares and distributes checks for payment. The City Treasurer is reconciling the bank accounts, but had not documented the reconciliation or reconciled receipts to deposits at the time of our review. Checks now require the signature of 2 of the 4 Board members. The City Clerk continues to be responsible for all utility billings and related duties. Payroll duties have been adequately segregated.

1.2 Accounting Controls and Procedures - Receipting, recording, and depositing procedures

The city's procedures for receipting, recording, and depositing were poor. The City Clerk did not issue receipt slips for most non-utility monies received. When receipt slips were issued, the city used generic prenumbered receipt slips rather than official prenumbered receipt slips. In addition, the method of payment of non-utility receipts was not always designated on receipt slips. As a result, a reconciliation of the composition of receipts to deposits could not be performed. The City Clerk did not deposit monies collected (utility and non-utility receipts) timely or intact. The City Clerk did not prepare or make a deposit until receiving the 60th utility payment since the last deposit.

Recommendation

The Board of Aldermen require official prenumbered receipt slips be issued for all monies received. The Board should also ensure that all money is deposited intact and timely and the composition of receipts is reconciled to the composition of deposits.

Status

Partially Implemented

Official prenumbered receipt slips are now issued. We reviewed monies received and the related accounting records for the period January 15



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through January 31, 2015, and noted receipt slips were not issued for some non-utility monies received (\$22,934). As a result, the Board could not determine if monies were deposited intact and the composition of receipts cannot be reconciled to deposits. Monies received (utility and non-utility) were deposited timely during this time period. Utility monies reviewed were deposited intact.

1.3 Accounting Controls
and Procedures - Bank
accounts

The City Clerk did not maintain book balances or perform bank reconciliations for 7 bank accounts.

- The city maintained a book balance for 4 of its accounts using check-writing software, but a book balance was not maintained for the City Collector account, water and sewer reserve accounts, or any of the cemetery savings and CD accounts. In addition, bank reconciliations were not performed for these accounts.
- One of the cemetery saving accounts incurred \$270 in service charges and only accrued \$6 in interest during 2013. The large number of bank accounts required additional record keeping. Except for separate accounts required by ordinance or law, some of the remaining bank accounts and CDs could have been consolidated to help simplify city records and reduce the number of accounts that must be monitored and controlled.

Recommendation

The Board of Aldermen ensure bank reconciliations are performed each month and any differences are investigated, and maintain a book balance for all accounts. Further, consider consolidating bank accounts to simplify records and reduce service charges incurred.

Status

In Progress

The Board closed three bank accounts and book balances for all accounts are now maintained. The Board provided bank reconciliation reports for the month of January 2015. However, these reports were not printed until April 1, 2015, and were subsequently signed and approved by the Board. The Board indicated it will maintain documentation of the bank reconciliation reports and timely approve them in the future.

1.4 Accounting Controls
and Procedures - Gross
receipt taxes

The city was notified by a wireless telephone company in October 2007 that the telephone company would be distributing gross receipt taxes as part of a legal settlement. Because the city had not placed a gross receipt tax on the ballot for citizens to approve, it was not eligible to retain the monies. The city began receiving gross receipt taxes from wireless telephone companies during 2008, deposited the taxes into an interest bearing savings account since November 2008, and had not disbursed any of these monies. This account had a balance of approximately \$52,700 at December 31, 2013. The



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city had not taken sufficient actions to determine the proper disposition of these funds, given its lack of authority to retain them. City officials consulted with their legal counsel and the options recommended for handling these monies included returning the monies to the phone companies, retaining the monies after the 5 year statute of limitations has elapsed, or turning the monies over to the state as unclaimed property. Our review indicated the appropriate disposition recommended would be turning these monies over to the Unclaimed Property Fund held by the State Treasurer in accordance with Section 447.532, RSMo.

The Board placed the collection of this gross receipt tax issue on the August 4, 2014, ballot and it passed; therefore, the city can retain future collections of gross receipt taxes.

Recommendation

The Board of Aldermen dispose of gross receipt taxes and the associated interest accumulated prior to August 2014 in accordance with state law.

Status

Not Implemented

These gross receipt taxes are still on hand, and the Board indicated it has no plans to turn these monies over to the State Treasurer's Unclaimed Property Fund.

2. Restricted Revenues

The city had not established adequate procedures to ensure restricted monies were expended only for intended purposes and salaries and other disbursements were properly allocated among funds.

2.1 Tracking and recording restricted revenues

The City Clerk was not properly tracking and recording various restricted monies. State motor vehicle-related revenues, Police Officer Standards Training (POST) fees, Law Enforcement Training (LET) fees, Capital Improvement Sales Tax (CIST) monies, and Law Enforcement Sales Tax (LEST) monies were comingled with general purpose monies rather than accounted for in separate funds. While the receipts of these restricted monies were tracked separately within the General Fund, the disbursements and balances of these restricted monies were not. Also, the city could not demonstrate disbursements were made as allowed by law, ballot, and/or ordinance.

Recommendation

The Board of Aldermen determine the amount of restricted monies in the General Fund and establish separate funds or a separate accounting of these monies.

Status

Partially Implemented

State motor vehicle-related and CIST monies are now tracked separately within the General Fund; however, LET fees and LEST monies are still



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comingled with general purpose monies and are not tracked separately. The city received no POST fees in 2014.

2.2 Allocation of salaries and disbursements

The City Clerk allocated personnel salaries between funds, but failed to allocate some corresponding personnel costs, such as health insurance and taxes totaling \$18,659, to all impacted funds in 2013. Our review of General Fund disbursements determined that bulk fuel and contract labor were used for street and utility projects; cleaning services for city hall benefited several departments including police and utilities; and attorney services covered issues pertaining to several departments. These goods and services totaling \$7,175 were paid entirely from the General Fund in 2013, although it is likely a portion of these costs could have been allocated to other funds.

Additionally, the city had no documentation to support the allocation of workers compensation and property and liability insurance totaling \$14,228 between the General, Water, and Sewer Funds for 2013.

Recommendation

The Board of Aldermen ensure payroll costs and shared costs are properly allocated to the applicable city funds and allocations are supported by adequate documentation.

Status

Partially Implemented

Salaries and payroll taxes are allocated based on hours worked for different funds, which is tracked on timesheets. Health insurance is no longer provided. Fuel is allocated to the various funds based upon supporting documentation. The city had not allocated the costs of cleaning services, workers compensation, and property and liability insurance at the time of our follow up meeting; however, the City Treasurer and City Clerk indicated they plan to do this in the future.

3.1 Water and Sewer System Controls and Procedures - Adjustments

The City Clerk made adjustments to customer accounts not allowed by ordinance. City ordinances allowed for adjustments to customer accounts for water leaks, if certain steps were followed, and for misreading of a meter. Our review of adjustments made during April, July, September, and November 2013 identified 3 customer accounts had penalties removed for reasons not covered by city ordinances. The City Clerk also made changes to a local school district account and a local fire district account so that penalties would not be assessed for late payments. There was no documentation the Board approved waiving penalties for the school or fire district, and the fire district made several late payments during 2013.

Recommendation

The Board of Aldermen require someone independent of the utility system review and approve all adjustments, and ensure supporting documentation is retained. In addition, ensure that adjustments are only made in accordance with city ordinances.



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Status

Partially Implemented

We reviewed adjustments to customer accounts made during January 2015, and determined all adjustments were made in accordance with city ordinance and the reasons for adjustments were adequately documented. However, the City Clerk made all of these adjustments and no independent review and approval was performed.

3.2 Water and Sewer
System Controls and
Procedures - Delinquent
accounts

The City Clerk was not monitoring delinquent utility accounts, and the Board had not developed policies and procedures for pursuing delinquent accounts and monitoring utility account balances. A report of delinquent accounts (active and inactive) as of March 2014, indicated 303 accounts, totaling \$19,791, were over 60 days delinquent, including 188 accounts (totaling approximately \$13,000) more than 5 years old. The Board did not have a process to periodically review this report and evaluate the likelihood of collection, and did not remove accounts considered uncollectable.

Recommendation

The Board of Aldermen establish policies and procedures regarding the collection of delinquent accounts.

Status

In Progress

The Board has implemented procedures to review delinquent accounts each month, but had not established formal policies at the time of our review.

3.6 Water and Sewer
System Controls and
Procedures - Utility
deposits

The City Clerk did not prepare a monthly list of utility deposits on hand and reconcile the list to a deposit reconciliation report or the balance in the City Collector bank account. A list of deposits held as of December 31, 2013, totaled \$6,770 and agreed to the deposit reconciliation report maintained in the system. The City Clerk identified an additional \$613 of refunds due to customers pertaining to the period 1996 through 2012 not listed on the reconciliation report, for total identified liabilities of \$7,383. However, the reconciled bank balance was \$7,233, indicating a \$150 shortage.

Recommendation

The Board of Aldermen maintain adequate records of customer deposits held and periodically reconcile these deposits to the deposit reconciliation report and bank account balance.

Status

Partially Implemented

The City Clerk indicated she started preparing a list of customer deposits in August 2014, and she provided us a list of customer deposits on hand as of March 4, 2015. However, the list had not been reconciled to the deposit reconciliation report or the bank balance.



3.8 Water and Sewer System Controls and Procedures - Audits

The city did not obtain annual audits of its Water and Sewer Funds.

Recommendation

The Board of Aldermen obtain annual audits of Water and Sewer Funds as required by state law.

Status

In Progress

The city has budgeted for an annual audit of the Water and Sewer Funds in 2015, and the Board indicated it plans to obtain an annual audit of these funds.

4.1 Payroll - Overtime

The city paid significant overtime during 2012 and the first quarter of 2013 that was not approved by the Board or Mayor. City policy stated that overtime was to be kept to a minimum and in June 2013, the Board updated the policy to require authorization of overtime by the Board or Mayor prior to it being incurred. In addition, the Board did not have a process for reviewing and approving timesheets and did not address the overtime issue until 2013. Further, some overtime was recorded on timesheets, but the timesheets were not always signed by the employee or an approving official as required by city policy. In addition, non-working time, such as vacation, sick and holidays, was included as hours worked when calculating overtime, which is not in accordance with city policy and not required by the Fair Labor Standards Act of 1938 (FLSA).

During 2013, the Board did not document approval of payroll payments made to employees totaling \$100,000 and payments made to a contract laborer totaling \$712.

Recommendation

The Board of Aldermen ensure adequate reviews of time records and payroll payments are performed and proper monitoring of overtime to ensure overtime is necessary and approved. In addition, ensure compliance with the city's overtime policy and the FLSA.

Status

In Progress

We reviewed time records and payroll payments for the month of January 2015, and noted adequate reviews of time records and payroll payments were performed, and employees were no longer working excessive overtime. However, some employees were not compensated by the city for a limited number of overtime hours worked.

4.2 Payroll - Leave and final paychecks

Although the city's personnel policy allowed vacation and sick leave hours to be carried over annually with a maximum balance and vacation leave to



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be paid out at termination, the Board was not tracking employee leave balances. As a result, there was no documentation to support the final amounts paid to the former City Clerk and former City Superintendent for vacation leave upon their termination. Our calculations determined the city overpaid the City Clerk for 52 hours of vacation leave (\$684) and the City Superintendent for 62 hours of vacation leave (\$1,001).

Recommendation

The Board of Aldermen ensure employee leave balances are properly tracked and monitored. In addition, ensure future final paychecks are supported by proper documentation, are in compliance with city personnel policies, are reviewed and approved by the Board prior to payment, and seek reimbursement of the overpayments.

Status

Partially Implemented

The City Clerk indicated she is the only full-time employee earning leave, and she prepared a spreadsheet of her leave balances, which was reviewed by the Mayor in April 2015. The Board consulted with legal counsel regarding the overpayments made to past employees and has chosen not to seek reimbursement.

4.4 Payroll - Salary ordinance

The city had not updated its ordinances to establish the compensation of employees since 1984.

Recommendation

The Board of Aldermen update the city ordinance that establishes the compensation of employees.

Status

Implemented

The Board adopted an ordinance on April 1, 2015, which establishes the compensation of all employees in the annual budget.

5.1 Disbursements - Approval process and oversight

The Board did not retain a list of bills approved, did not document its approval of individual invoices, and did not approve some non-payroll disbursements prior to payment. In addition, the city did not require invoices to be marked paid or otherwise canceled, and the receipt of goods or services was not documented prior to payment.

Recommendation

The Board of Aldermen ensure all invoices are reviewed and approved by appropriate officials prior to payment and ensure approval of disbursements is documented. In addition, the Board should ensure invoices are marked paid to prevent duplicate payments and require documentation of receipt of goods and/or services prior to payment of invoices.



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Status

Implemented

The Board reviewed and approved a list of disbursements made in January 2015. The January 2015 invoices reviewed were marked paid and documented receipt of goods and/or services.

**5.2 Disbursements -
Procurement procedures**

The city did not have a formal bidding policy and did not solicit bids for any goods or services purchased during the 2 years ended December 31, 2013.

Recommendation

The Board of Aldermen establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for bids selected.

Status

In Progress

The Board indicated it has begun bidding goods and services and provided documentation for the bidding of mowing services in April 2015. However, the Board had not established formal bidding policies and procedures, but indicated it will consider adopting formal bidding policies and procedures in the future.

**5.3 Disbursements -
Conflicts of interest**

The Board did not adequately monitor its activities for conflicts of interest and noncompliance with related statutory provisions. The city paid approximately \$1,000 to Mayor Gary King's repair business in 2012 without soliciting bids. In addition, Alderman Binder's son was paid \$712 in 2013 as a contract laborer with no documentation of Board approval.

Recommendation

The Board of Aldermen comply with state law regarding transactions with businesses owned by city officials, and ensure such arrangements are properly handled and documented. In addition, the Board should closely examine city transactions to identify and avoid the appearance of or actual conflicts of interest, and ensure members avoid participation in decisions or other situations that could result in the appearance of or actual conflict of interest.

Status

Implemented

The Board has not utilized the services of any city officials or their relatives and indicated it does not plan to do so in the future. The Board adopted an ordinance on April 1, 2015, which addressed conflicts of interest and required filing of personal financial disclosures.

6. Sunshine Law

The Board did not always comply with the Sunshine Law. Open meeting minutes did not always record a roll call vote of the Board members to enter into closed session and did not always document the reason for closing the meeting. Section 610.022, RSMo, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the



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closed meeting, including reference to a specific section of the law, shall be voted on during an open meeting. These reasons and the corresponding votes to close the meeting should have been documented in the open minutes to demonstrate compliance with statutory provisions.

Recommendation

The Board of Aldermen ensure open meeting minutes properly disclose the votes and reasons for closing a meeting.

Status

Implemented

The Board properly disclosed the votes and reasons for closing meetings during November 2014 through January 2015.

7. Budgets

City budgets did not include all elements required by law and were not accurate, and some budgeted receipts and disbursements were overstated.

The Board approved budgets for the years ended December 31, 2013, and 2012, that did not include a budget message, budgeted amounts for the 2 preceding years, and beginning and ending actual and estimated cash balances.

The Water Fund and Sewer Fund budgets listed labor as a disbursement; however, these labor costs were already included in the General Fund budget. In addition, the 2013 actual amounts recorded as transfers in to the General Fund and transfers out of other city funds on the 2014 budget were not correct. The City Clerk prepared checks that were dated December 31, 2013, and some of these checks were recorded as actual disbursements of 2013 in the 2014 budget, while other checks were recorded as disbursements in the accounting system for 2014.

Recommendation

The Board of Aldermen prepare budgets that are accurate and in compliance with state law.

Status

Partially Implemented

As with previous years' budgets, the 2015 budget did not include a budget message, budgeted amounts for the 2 preceding years, and beginning and ending actual and estimated cash balances. It reported accurate information.